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Politics this week

Oct 17th 2002
From The Economist print edition

Horror in Bali

AP

A car bomb destroyed the heart of the nightclub district of the Indonesian island of **Bali**, killing around 200 people, most of them Australian tourists. Indonesia said it believed the bombers were linked to Osama bin Laden's al-Qaeda network.

See article: Hunting the Bali bombers

Bomb blasts in the centre of Zamboanga city, in the **Philippines**, killed five people and injured at least 144.

See article: South-East Asia's terror network

North Korea admitted that it had defied a 1994 agreement with America and continued work on nuclear weapons. It did not make it clear whether it now possessed such weapons or not.

See article: Bali, Iraq and a nuclear North Korea

Five Japanese **kidnapped** by North Korea some 20 years ago returned home, but only for a brief visit. Their children remain in the North.

Pakistan's general election, which President Pervez Musharraf tried to “engineer”, instead produced a strong anti-American grouping in parliament.

See article: Pakistan's election

India and **Pakistan** said they would withdraw some of the 1m troops along their common border, easing tension over their claims to Kashmir. Indian forces killed eight suspected Islamic militants in Indian Kashmir.

See article: Kashmir thaw

Washington in the crosshairs

A **sniper** terrorising Washington, DC, claimed a ninth victim, a 47-year-old FBI analyst. Fearful citizens have taken to minimising time spent outside and many open-air events have been cancelled. Police were assisted in the hunt for the killer by military-surveillance aircraft.

See article: The sniper continued

George Ryan, governor of Illinois, started clemency hearings for around 140 prisoners on **death row**. In April a bipartisan commission reported serious flaws in the system for handling capital-punishment cases.

See article: Illinois's Death Row politics

Jimmy Carter won the Nobel peace prize for his unstinting support of mediated solutions to international clashes. The announcement came just after Congress passed a resolution authorising President George

Bush to use force against Iraq. Mr Carter said that he would have vetoed the resolution.

A worthy victor?

Reuters

Saddam Hussein won 100% backing from a 100% turnout in a referendum on whether he should rule for another seven years in **Iraq**. Hans Blix, the chief UN weapons inspector, confirmed that the inspectors would not be returning to Iraq until there was a new Security Council resolution.

See article: Iraq waits for what comes next

Ariel Sharon had talks with George Bush. Mr Bush accepted **Israel's** right to retaliate if attacked by Iraq. In Gaza, an Israeli tank shell caused high civilian casualties.

See article: Israel and the erosion of human rights

Lebanon switched on a new pumping station that will draw water for irrigation from the Wazzani, a small river whose waters eventually flow into the Jordan. Israel objects strongly. America has been trying to mediate.

Kenya's long-ruling KANU party split when several members defected to form a “National Rainbow Coalition” with opposition groups for December's election. They plan to challenge Daniel arap Moi's chosen presidential successor, Uhuru Kenyatta.

After a month of fighting and instability in **Côte d'Ivoire**, at one time dividing the country in half, the government and rebels were persuaded to sign a ceasefire.

In **Sudan**, a man who tried to hijack a Saudi Arabian airliner shortly after it took off was overpowered by on-board security forces.

Taxing times

Gerhard Schröder announced a new coalition-government programme and cabinet for **Germany**. His Social Democrats and their Green partners will raise taxes by cutting allowances, and restrain spending—just as the EU wants and Germany's faltering economy does not. Are they ready for real structural reform? Yes, they said. Nonsense, said the centre-right opposition.

See article: Germany's new government

The **Dutch** government collapsed. Its Fortuynist ministers were bickering among themselves, while both they and the Liberals disagreed with the dominant Christian Democrats over the swift pace of EU enlargement.

See article: The Dutch government collapses

Britain's great scandal of deliberate downgrading of exam results for 17- and 18-year-olds collapsed into farce: re-marking of hundreds of thousands of papers suggested that only 2,000 students had in fact been unfairly treated.

In **Italy**, a “technical” error in the text endangered passage of the proposed law that would help some parties to lawsuits—not least friends of Silvio Berlusconi, the prime minister—get court cases transferred if they could reasonably argue that the judges were prejudiced. The law has still to be considered by the constitutional court.

Serbia's presidential election collapsed: in the second round, on October 13th, less than half the electorate bothered to vote, and the whole election has to be rerun. The main nationalist (and pro-Milosevic) candidate, Vojislav Seselj, who had narrowly failed to get into this round, and had told his followers to boycott it, may do well next time.

See article: Serbia's presidential non-election

In **Northern Ireland**, devolved government was suspended after Unionists refused to go on working with Sinn Fein, the IRA's political arm, claiming that some of its people had gathered information that might help a return to terrorism.

See article: A coming man in Northern Ireland

President in waiting

Opinion polls gave Luiz Inacio Lula da Silva of the left-wing Workers' Party a big lead over Jose Serra, his opponent in the run-off ballot for **Brazil's** presidency. The currency and Brazil's bonds sagged again, prompting a surprise increase in interest rates.

See article: Brazil's mounting financial crisis

Hundreds of thousands of opponents and supporters of **Venezuela's** president, Hugo Chavez, took to the streets of Caracas in demonstrations within three days of each other. Hardline opponents called a strike against the president for October 21st. Undeterred, Mr Chavez departed on a European tour.

In **Jamaica's** general election, Prime minister P.J. Patterson, and his People's National Party won a fourth consecutive term, but with a reduced majority. About 60 people were killed in the run-up to the election.

Reuters

See article: Jamaica's no-change election

The commander of **Chile's** air force resigned over the mishandling of an inquiry into the whereabouts of victims of General Augusto Pinochet's dictatorship of 1973-90.

See article: Human rights and Chile's air force

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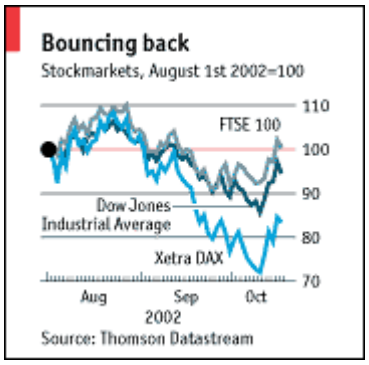
Business this week

Oct 17th 2002
From The Economist print edition

All rise

After months of gloom, **stockmarkets** bounced spectacularly. On Wall Street, the Dow Jones Industrial Average rose by 13% in four days, its biggest percentage increase over such a period for over ten years, after hitting a five-year low the previous week. The story was similar in Europe: Germany's Xetra DAX was up by 17% and Britain's FTSE 100 gained 5% in a day.



See article: World stockmarkets

Profits in the bank

Citigroup led the way in a better week for most of **America's banks**. Profits at the financial conglomerate rose by 23% in the third quarter over a year ago, to $3.9 billion. Profits at Merrill Lynch, Bank of America, Wells Fargo and Bank One were also up. All these banks' shares rose.

J.P. Morgan Chase bucked the trend, reporting profits down by 91% to just $40m because of bad loans and a poor trading performance. It announced 2,000 additional job cuts at its investment-banking arm.

Credit Suisse also had a better week. The cash-strapped Swiss bank sold its remaining 3.5% stake in Swiss Re, the world's second-largest reinsurer, for around SFr1 billion ($669m). Investors applauded the move, and sent its shares up by 13%.

Bank of Ireland, paying little heed to a recent rebuff, set out the terms of its hostile bid for Abbey National. Its cash and shares bid values the British bank at £10.3 billion ($16 billion). Abbey National spurned its suitor once more.

Cars are a write-off

General Motors reported a third-quarter loss of $804m after writing off $2.2 billion to reflect the plummeting value of its 20% stake in Fiat's car-making operations. This was seen as a hint that GM is not prepared to pay much for the Italian car company in 2004, when Fiat can exercise a put option to sell it. Meanwhile, the Italian government was debating a bail-out.

See article: Fiat under siege

Ford suffered a loss of $326m in the same period, after writing off $500m following the sale of Kwik-Fit, its loss-making British car-repair chain.

Porsche said that profits for the year had whizzed ahead by 71% compared with the previous 12 months, to *euro*462m ($418m). Sales of the German luxury sports-car are seen as an indicator of economic confidence; about half its production is sold in America.

See article: Porsche ahead

Vodafone v Vivendi

Vodafone decided to force the hand of **Vivendi Universal** over ownership of **Cegetel**, a French telecoms company. The mobile giant offered BT and SBC Communications *euro*6.3 billion ($6.2 billion) for their stakes in Cegetel, raising its own stake from 15% to 56%.Vodafone also offered Vivendi *euro*6.8 billion for its 44% of Cegetel. The French media giant has the pre-emptive right to buy the stakes from BT and SBC (at a premium), but it will have trouble finding the cash.

Granada agreed to pay £1 billion ($1.6 billion) for **Carlton Communications**. Britain's two big independent-TV companies have flirted with each other in the past, but regulatory concerns have come between them. New media laws may now let a marriage go ahead; but advertisers fear that the new company will have too much power.

See article: An inevitable ITV merger

Europe's **Airbus** soared above Boeing, its transatlantic rival, winning an order for 120 aircraft from easyJet, a European low-cost airline. Rumours abounded of a very generous discount, said to be 50% off a total list price of $6 billion. **Boeing** hit turbulence; it said that profits in the third quarter were down by 43% compared with a year ago, to $372m.

See article: EasyJet

TXU, an American energy company, pulled out of its European operations—and may sell up—and slashed its dividend in an attempt to sustain its troubled American arm.

Henkel, a German chemicals company, hoped to add extra shine and body to its product range with an offer of *euro*4.5 billion ($4.4 billion) for Wella, a shampoo and hair-care company. Wella gave Henkel's low bid the brush-off.

Bad news from **Reuters**. The British news and information group said that revenues were falling faster than expected. Its shares tumbled. Reuters' market capitalisation has shrunk by over 75% in the past year.

Inside story

ImClone's former chief executive, Sam Waksal, pleaded guilty to insider-trading charges. A probe continues into whether he had tipped off two family members, a mysterious unnamed third party and Martha Stewart, a friend and America's queen of home styling, about impending bad news at the company.

America Online bowed to pressure from subscribers and vowed to stop taking pop-up ads on its Internet site. The risk of irritating paying customers was deemed to outweigh the cash generated by the unwelcome intrusions.

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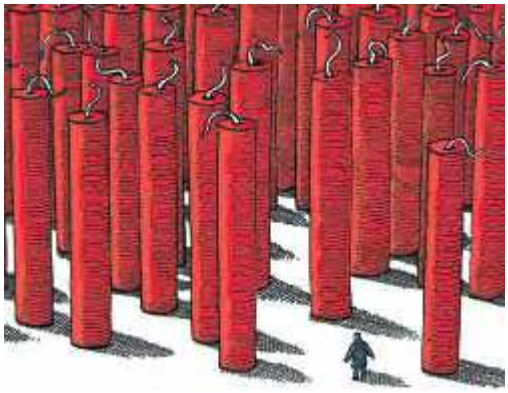
Bali, Iraq and North Korea

A world of terror

Oct 17th 2002
From The Economist print edition

Bali, Iraq and now a nuclear North Korea



THE death toll was shocking, the target unexpected, the deed itself monstrous. But in some ways last weekend's car-bombings in Indonesia were no surprise. The holy war Osama bin Laden declared in 1998 against “America and the Jews” was always going to be a long one.

This is a war, moreover, for which the rest of history will not obligingly stop while the world works out how to win it. Other dangers, some of them related dangers, need to be guarded against at the same time. Chief among these is the prospect of unstable individuals acquiring weapons of mass destruction. In the case of Saddam Hussein, the best guess is that Iraq is still a few years away from acquiring nuclear weapons. In the case of Kim Jong Il, it now looks as if the nuclear genie has slipped out of the bottle. Confronted a fortnight ago with incriminating evidence from American intelligence, the North Koreans at last admitted that they had been systematically flouting the solemn agreement they had made with Bill Clinton in 1994 to freeze their nuclear-weapons work. That agreement, the North Koreans now say, has been “nullified”. In short, one member of George Bush's “axis of evil” may already have the bomb.

Naught for your comfort

How is the world to cope with these multiplying dangers? The first grim truth to accept is that the war on terrorism did not begin with last year's felling of New York's twin towers, and is not going to end in Bali. Two years before the twin towers, al-Qaeda killed more than 200 people in and around America's embassies in Kenya and Tanzania. Despite being pushed out of Afghanistan, it has since killed a busload of German tourists at a synagogue in Tunisia, tried to blow up an airliner over the Atlantic, come close to sinking a French (“Christian”, said its communiqué) oil tanker and claimed credit for a miscellany of multiple murders in numerous countries. No government seems to know or will say for certain whether Mr bin Laden himself is alive or dead, or whether the Bali massacre was mounted by al-Qaeda itself or by some local cell inspired by or affiliated to it. Either way, the bleak message is that his war will continue, unrestrained by any apparent moral scruple. Young westerners having fun in a tolerant Muslim country? A perfect target. Bleaker still, given what is known about al-Qaeda's efforts to obtain chemical and biological weapons, and to fabricate a “dirty bomb”, the world must brace for the possibility of a future blow being more destructive still. And this is just as likely to fall on Chicago, Manchester or Marseilles as on a remote island in Asia.

If any good can come from Bali, it is that this attack may snap the government of the world's most populous Muslim country out of a lethal complacency. Alone in South-East Asia, Indonesia had dismissed well-founded foreign anxieties about the danger of international terrorism as so much scaremongering. Neighbours such as Malaysia and Singapore, as well as the United States, had implored President Megawati Sukarnoputri to take stronger action against various local extremist groups with links to al-Qaeda (see article). She declined—ostensibly for lack of evidence, but more probably for fear of taking action that Indonesia's Islamic parties might construe as siding with the West in a global war of religions.

Even before Bali, this calculation was probably over-cautious. Mrs Megawati has now been given a new and all-too-powerful reason to think again. The worst thing is not that terrorism will drive away tourists and investors, though that is

If all goes well, the horror of Bali

bad enough. Indonesia is fragile: at any moment, a dozen or so ethnic or separatist conflicts grumble away somewhere in this scattered archipelago. The quickest way to destroy its tentative new democracy would be to let the sort of people who bombed Bali go about their business unhindered. Nothing could be better calculated to tempt an army that has been only too ready to encroach on politics to make a new grab for power. As for the big Islamic parties, it is by no means clear that they would ever have reacted strongly to a crackdown on the violent fringe, and they are even less likely to make a hue and cry about it now. It is one thing to feel a sneaking sympathy for bin Laden and anti-Americanism from afar. It is something else when your own country starts to go up in flames.

may in time strengthen the East Asian front of the war against terrorism

If all goes well, in other words, the horror of Bali may in time strengthen the East Asian front of the war against terrorism in two ways: by jolting a supine government into belated counter-terrorist action, and by driving a wedge between al-Qaeda's fellow travellers and the moderate, non-violent Islamic parties of Indonesia.

Waking up the East, mixing up the West

Bali's impact in the West has been more mixed. Here, too, it has brought a bitter awakening. Passing time had tempted some Americans to look upon the slaughter of thousands of people in one go on September 11th last year as a one-off, a “lucky” strike on a scale the terrorists would be hard-pressed to repeat once the Americans had toppled the Taliban regime in Afghanistan and so deprived al-Qaeda of its sanctuary. Beyond America, and no matter what their heads said, few people in other countries—perhaps least of all the Australians, who suffered so much this week—believed in their hearts that they faced a similar danger. Bali suggests that this was wishful thinking. But the American government, to its credit, never thought this way. Its refrain was that fighting terrorism was going to be a long and many-fronted war, without clear victories. The pity is that so many people wrote the refrain off as hyperbole—or, worse, as nothing much more than a cynical attempt to talk up the danger from terrorism and cast George Bush as a permanent wartime president so that he could maintain a political advantage at home.

Bali has at a stroke reversed this complaint. A great and incoherent wail has now gone up against the whole of America's prosecution of the war against terrorism. Some of the same voices that accused Mr Bush yesterday of hyping up the terror danger accuse him today of letting his attention wander. Yes, he conquered Afghanistan, but he somehow allowed al-Qaeda's top people, those who were wanted “dead or alive”, to slip away to new havens in Pakistan. Now, say his critics, Afghanistan is plagued by warlordism and Pakistan (see article) shows a growing anti-Americanism of its own. But instead of correcting these mistakes and hunting al-Qaeda, Bush the younger seems fixated, like Captain Ahab on his whale, on trumping up pretexts for a distracting new war against Mr Hussein, the Iraqi dictator Bush the elder failed to finish off a decade ago. This fixation, so it is alleged, is already diverting resources and attention from the fight against terrorism (“America's obsession with Iraq leaves others free to kill,” in the priceless blame-America headline of Britain's *Guardian*). And if an Iraqi war should come, say the doubters, its one sure result will be to make millions of Muslims hate America the more, driving some of them to arms.

Yes, do two things at once

A few parts of this argument need to be taken seriously. Others just can't be. Reasonable people can and do disagree about whether it is worth going to war to defang Iraq. But how has the balance of that argument changed in light of the unsurprising fact that the terrorists have struck again? Did thinking about Iraq lower America's guard in South-East Asia, or anywhere else? There is no jot of evidence for this. Since September 11th, the Americans have intensified their intelligence-gathering in every sphere. Just recently this has led to a spate of arrests of al-Qaeda suspects around the world. If there was a failure in Bali, it does not seem to have been a lack of American attention but Indonesia's failure to heed the timely warnings it received from both America and others.

None of this is to argue that the Bush administration has performed flawlessly. As in any war, there have been both tactical errors and strategic ones. A tactical error in Tora Bora enabled the al-Qaeda leadership to escape. *The Economist* submits that it was a strategic error to confine Afghanistan's international peacekeepers to Kabul; and to give Pervez Musharraf, Pakistan's military dictator, a green light to undermine what was left of his country's parliamentary system. There is, furthermore, serious force in the argument that an American war against Iraq might turn more Muslims against America. The war against Islamic terrorism must in large part be a war for the hearts and minds of Muslims. That is

uncontroversial. The hard question is how to win this part of the war.

The war against Islamic terrorism must in large part be a war for the hearts and minds of Muslims

Some of America's critics counsel a generalised flaccidity, in the style of Mrs Megawati: keep a low profile and do nothing at all that might stir up the hornets. Others compose a list of useful chores for the superpower to take on right away, the one common feature of which is that none of them is Iraq. Solve Palestine, solve Kashmir, end world poverty, turn Muslim leaders into democrats, make the lion lie down with the lamb. Curiously, it is assumed in the case of Iraq that American intervention is pre-ordained to be incompetent and that the looked-for benefit will be outweighed by the unintended consequences. Everywhere else, American omnipotence is taken for granted. Solve Palestine? A decade of intensive American peacemaking led by Bill Clinton failed, yet it is blithely assumed that America has now merely to brandish a magic wand or big enough stick to make Israel disgorge the occupied territories it has been choking on for decades.

Even in its present muscular mood, even with its present unchallenged power, an America that is asked to do the impossible, or which promises it, is bound to disappoint. Deliver us from evil, goes the cry from every point of the globe; just make sure not to stir up any hard feelings while you're about it.

This is an impossibility. America cannot fight al-Qaeda without offending the millions of Muslims who persist in thinking that al-Qaeda has half a point. And though all the items on that list of chores matter, all require a long slog. The regional conflicts in Palestine and Kashmir are a thicket of thorns. Democracy? America can preach and nudge, but cannot at a stroke impose pluralist values on all the countries where people are denied them. In the meantime, one of the weapons America must deploy against al-Qaeda is traditional statecraft, which often entails opportunistic alliances with the sort of regimes—in Egypt, Kazakhstan, Pakistan—Americans would not choose to be governed by themselves. There may be ways to assuage some Muslim “grievances” without tipping into appeasement. But do not expect too much. The chain of causation that is said to lead from Palestine to the decision of a terrorist to murder young partygoers in Bali is not going to be easy to interrupt by making an adjustment in diplomacy.

Above all, America must not let the things which it cannot do right away stop it from doing the things that it must do right away. In the view of this newspaper, one of those is preventing Mr Hussein, a proven sociopath, from acquiring an atomic or biological bomb, and so the ability to threaten or kill millions of people. It is possible, if the UN cannot do this peacefully, that the only way to stop him is by war. It may also be possible that such a war will further inflame Muslim opinion against the West (even though millions of Iraqis will doubtless rejoice in his removal). But all of these things were true last week, before a gang of terrorists killed hundreds of innocents in Bali. How perverse it would be if that crime were to distract the world from an action that could yet save millions

Better earlier than too late

Some will say, with the revelations from North Korea, that Iraq is no longer a priority. Mr Hussein has not yet got his bomb; Mr Kim may have his already; so it is North Korea that poses the clear and present danger. This is to get the logic of the argument the wrong way around. The time to act against such regimes is before they build, buy or steal such weapons. Disarming them afterwards, when they can threaten to lash out, is a far more delicate affair. Though Mr Bush has now to deal with a difficult new situation in North Korea, what has happened there ought only to strengthen America's pleas for forceful international action in Iraq, before it is too late.

What, meanwhile, can still be done about North Korea? Much will depend on what it does next. A few short weeks ago, the North came clean about its kidnapping of Japanese nationals and apologised, knowing that otherwise it could not hope to win the generous Japanese aid it needs for its clapped-out economy. At the time, Mr Kim assured Japan's visiting prime minister that it would honour its various nuclear agreements. Perhaps coming clean about its past nuclear dabbling now is intended to clear the slate for talks about a new relationship with America, leading eventually to the supervised elimination of those weapons. Unlike Iraq, moreover, North Korea is boxed in by countries that are rich or powerful or both—China, Russia, Japan and South Korea—all of which have leverage to exert and all of which have good reasons to ensure that Mr Kim disarms.

And if they fail? It is too soon to say. But if the world has learned one thing about this age of terrors, it is that wishful thinking, succumbing to blackmail, and vesting false hopes in unverifiable agreements are no

answer at all.

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Europe's troubled economies

The dangers of atavism

Oct 17th 2002
From The Economist print edition

Europe's industrial policies should be brought up to date

EVERY day seems to bring more woes for Europe, and especially for the big three euro members: Germany, France and Italy. This week German banks were reported to be in trouble, and German productivity growth was found wanting. France faced an EU investigation over subsidies to Electricité de France (EDF). And Italy's government was embroiled in debate over a state rescue of Fiat Auto.

Controversy also rages over Europe's economic policies. German and French politicians are taking potshots at the European Central Bank for its overly tight monetary policy. And everybody is denouncing the EU's stability and growth pact, which requires tax rises and public-spending cuts in the teeth of economic slowdown.

Just the usual smattering of gloomy news, you might suppose. Look harder and a pattern becomes apparent. The atavistic instinct, call it: a steely determination to apply yesterday's remedies to current problems. (In some cases even the problems are out of date.)

Consider Fiat. It has been clear for months, if not years, that the group's car-making arm was in trouble. An orderly retrenching, including plant closures, should have paved the way for a planned sale to America's General Motors (see article). Instead, even the avowedly free-market government of Silvio Berlusconi has responded to union pressure with talk of a state bail-out. A similar story can be told of Germany's battered banks. They are weighed down by bad loans and unprofitable forays into investment banking (see article). But what lured them into these and other mistakes was a chronic lack of profits at home, caused mainly by the presence of state-guaranteed competitors in the shape of landesbanks and savings banks. The German government fought tooth and nail to defend these guarantees against EU competition rules, only reluctantly agreeing to scrap them from 2005. The policy has actually weakened the country's banking industry.

Then there is France's desire to protect EDF by keeping its domestic energy market largely closed to foreign competition. The effect of this 1970s-style fostering of national champions—something Germany does too, albeit more subtly—is to entrench an overmanned, high-cost supplier of energy, to the detriment of French consumers and taxpayers.

To complete the picture, the ECB seems to be displaying an inherited tendency to ape the German Bundesbank's unyielding battle against inflation in the 1970s and 1980s, even though today's struggle should be more against slow growth and the risks of deflation (see article).

Believers in the European way might say that Europe is not doing all that badly. Its productivity and growth compare quite well with America's lately—even since the euro arrived in 1998. Yet that is not what euro enthusiasts looked for. They hoped the currency would unleash much faster growth, with Europe usurping America as the engine of the world economy. Given the gap that Europe has to close, the idea was not absurd. Measured this way, Europe's performance in the past half-decade has been awful.

The atavists' second response is that they are doing what voters want: preserving welfare systems and fighting for jobs. The answer to this is to be found surprisingly close at hand, in such fringe euro members as Spain, the Netherlands, Finland and Ireland. These countries have embraced liberalisation, opened their economies, reformed their labour markets and welcomed foreign competition. As a result, they are enjoying faster growth, more job creation, falling inflation and healthier public finances. The

backward-looking trio at the heart of the euro area should take note.

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American politics

In praise of Iowa

Oct 17th 2002
From The Economist print edition

The only democratic part of the United States

Corbis

THIS newspaper has doubts about Iowa. It is too empty. And every four years presidential candidates file to its caucuses to be blackmailed by dour farmers into supporting their ethanol subsidy—as foul a piece of political pork as you will find. It is no great surprise that this year's monstrous farm bill was largely the work of Senator Tom Harkin of Iowa.

Yet, in one respect, Iowa towers above the rest of America like a silo above the cornfields: democracy. This year, America should be set for a close election. The Republicans have an 11-seat advantage in the House, the Democrats a precarious one-seat advantage in the Senate, and there are plenty of governorships up for grabs. The polls showed the Democrats ahead in the summer, when the economy was the main subject; now, thanks to Iraq, the Republicans are just in front.

And how will this “50:50 country” emerge at the hustings? There will indeed be close races in the statewide contests—ie, those for the Senate and the governors' mansions. But in the biggest forum of American democracy—the House of Representatives—no more than 20 of the 435 races look competitive. In any other evenly divided country's lower house, one in every five members of parliament, deputies or assemblymen would be a nervous wreck by this stage; in America, only one in 20 congressmen needs to think about an alternative career.

The reason is redistricting, the rejigging of district boundaries to take account of demographic changes. In most countries, this is done by independent bureaucrats. In virtually every American state it is done by state politicians—and, boy, does it show. The parties “gerrymander” districts to cram supporters into absurdly shaped districts: doughnuts, embryos, crabs, Rorschach tests.

Usually, the ruling party cheats. In Florida, which the latest presidential election indicated was an evenly divided state, the ruling Republicans have produced 17 Republican seats and eight Democratic ones. More often, the two parties cut deals to protect incumbents. Ten of the Florida seats are so safe that the candidates are running unopposed. The only competitive seat in the whole of California is that occupied by the disgraced Gary Condit, who is now retiring.

The law does nothing to stop this. Indeed, the Voting Rights Act, which encourages majority-minority districts, provides an excellent excuse for cheating. Illinois's bizarre sandwich-like fourth district, which consists of two unconnected slivers, exists purely to gather up Democratic Latinos. And new software is allowing the parties to be even more precise about their cheating. Given all the other advantages that incumbents have, in terms of name-recognition, money-raising powers and the ability (like Mr Harkin) to bring home pork, this makes for a travesty of democracy.

There are coincidental exceptions to this rule: seven states are so sparsely populated that they have only one House seat each. Five other states have bipartisan commissions, sometimes with a neutral tie-breaker. But the noblest exception is Iowa: it has handed redistricting over to an independent bureau that is not allowed to take political considerations such as voting patterns and party registration into account when drawing boundaries. As a result, four of its five seats have competitive races—more than California, New York, Texas and Illinois combined can muster. The citizens of Arizona recently voted by referendum to adopt a similar system to Iowa's.

No method of redistricting is perfect, but the Iowan way is better than the rest. Forget the jokes about silos. Maybe it is time to tow the Statue of Liberty to Des Moines.

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Computers and government

Getting IT

Oct 17th 2002
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Governments are notoriously bad at buying IT. Here's how they could do it better

THE debate about the British government's plans to revive the National Health Service has focused on structural reform. The prime minister insists that he is being bold and that the reforms he is demanding will be “transformative”. Some critics (including this newspaper) argue that he needs to go much further in dismantling the monolith. Others (including trade unions) say he has gone too far already. But, in the short-term at least, a less-discussed aspect of NHS reform will probably have more impact on the government's ability to deliver: IT.

Over the next five years, the government is doubling IT spending in the NHS to £2.5 billion ($3.9 billion) a year. When Tony Blair talks ecstatically about a new consumer focus—from hospital appointments booked online at times convenient to patients to electronic medical records that can be accessed wherever the patient is—he is depending on IT to deliver the goods. Yet large government IT projects have a habit of going spectacularly wrong.

The government thinks it has learned the lessons of past IT disasters (see article). The new Office of Government Commerce has created something it calls the Gateway process, a sensible enough system of appraisal and review, which it believes will cut down the number of “rogue” projects. But it is far from clear that the government understands why IT projects in the public sector are particularly susceptible to failure.

There are many reasons. Big projects are difficult to manage whether public or private. But the most intractable problems arise from attitudes that are distinctively public-sector.

Most private-sector bosses—especially since the bursting of the dot-com bubble—hope for nothing more than a return on their investment through lower costs and some improvement in competitiveness. But politicians (*vide* Mr Blair), desperate to find quick fixes and unencumbered with any understanding of what technology can and can't do, often expect miracles. And one of the things that technology can't do is to alter people's attitudes towards change. “Change management” is never easy, but in the public sector it is especially hard because there is too little competitive pressure pushing it, and there are too many powerful unions holding it back. The commonest reason for IT failures is that custom-made systems are built to fit existing ways of working. Such systems, which consultants are only too happy to create, are expensive, deliver only marginal benefits and are inherently likely to go wrong.

So how can civil servants avoid disaster? First, they should regard installing new software as an opportunity to re-engineer the way they work in the light of both the Internet and how they want to operate for the next 20 years. Consultants cannot make those decisions for them. The new business processes must also fit unmodified software, not the other way round: the more modifications to the software, the greater the risk. Second, they should beware of incomplete automation: if one area of operations still depends on hand-written forms, little will be gained. To this end, they must buy business applications that have been engineered from the outset to work together. These may not individually be the “best of breed” that consultants often recommend, but they are more likely to be properly integrated—think of Microsoft Office. Finally, IT systems should provide managers with vital information; most fail to because data are fragmented and hard to find. With an Internet-based system, important information can be kept in one place, and managers can get at it when they need it.

The civil servants responsible for the health service's IT“revolution” have been told, helpfully, by their political masters that “failure is not an option”. It is, of course—but the risk can at least be reduced.

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Letters

Oct 17th 2002
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

UNenforceable

SIR – Your article on Israel and Iraq misses its target ("Double standards", October 12th). The UN is a talking shop. The double standard is applied by the nations that constitute the UN and specifically America. It is not so much the precise UN resolutions that shape the double standards applied in Israel and Iraq but the power of America to veto Chapter Seven resolutions concerning Israel, and its willingness to act outside the UN should its proposed enforcement resolutions against Iraq be vetoed.

On strictly legal grounds, as you say, a certain number of Israel's actions have been held to be illegal—for example, the building of settlements. It is here where a legal case for action against Israel can be built and where a legal double standard exists. The scale and the duration of the settlement plan profoundly affect both the chances for a peaceful settlement and the nature of the occupation itself. To claim that the occupation is not illegal when there is ample evidence that a primary aim of that occupation is to conduct illegal acts with permanent consequences is a legal nicety that is quite transparent.

Turning to the Israeli weapons programme, you are right that the mere possession of nuclear weapons is not illegal. However, it is worth noting that America (not the International Atomic Energy Agency) was to have conducted inspections of Israel's nuclear facilities from 1961 to 1969 in order to prevent Israel from obtaining nuclear weapons. At the time, Israel hid its nuclear-weapons programme and blocked the full access of inspectors. The result was farcical but no action was taken against Israel, then or later.

Geoffrey Kidd
Paris

Headhunters held high

SIR – You imply that headhunters are to blame for the damaging cult of charisma in the market for chief executives ("Bosses for sale", October 5th). The media—not search firms—are captivated by the cult of personality. Executive search is not about spice. Most executive-search firms (including all those you mention, as members of the Association of Executive Search Consultants) subscribe to a strict code of ethics precisely to uphold professional standards and avoid any taint of suspicion. Operating as they do in an ambience of extreme confidentiality, they neither crave nor need publicity.

Peter Felix
President
Association of Executive Search Consultants
New York

Nurturing the opposition

SIR – You make a number of mistaken assertions about Kirgizstan ("For whom the Liberty Bell tolls", August 31st). First, for four years our nation was under vicious assault by al-Qaeda's 55th battalion. You suggest that our government used this fact to justify repression of dissent and erosion of civil liberties. Kirgizstan is proud of its achievements in ten years of democracy and independence, but is happy to accept well-intentioned criticism. However, you go too far in suggesting that our government uses a broad brush to characterise its opponents as terrorists. We have been notably more reluctant to use this

phrase than many of our neighbours and we still know how to distinguish religious fundamentalists who keep to themselves and their conscience from those who seize weapons and bombs, and attempt to overthrow the state through acts of violence. Most of the government's opposition is secular and has nothing to do with al-Qaeda.

Second, your statement concerning President Askar Akaev's “entrenched” political position is simply at odds with the facts. Mr Akaev announced that he will not seek re-election when his term ends in 2005, so he is now what our Anglo-American friends would call a “lame duck”. He has also reconstituted the government to include representatives of several groups previously in opposition to him and has organised a constitutional council, also filled with opposition minded figures, to provide further opportunities for a change of power. Our nation now faces its first transition of power since independence.

Baktybek Abdrisaev
Ambassador
Kirgiz embassy
Washington, DC

Brazil's risky future

SIR – None of the candidates for Brazil's presidency, particularly Luiz Inacio Lula da Silva, accepts responsibility for the increase in country risk (“The meaning of Lula”, October 5th). It is far easier to blame foreign speculation. Though much of the increase in risk can be attributed to dry international capital markets, low investor tolerance for risk and poor growth prospects in developed markets, this does not exonerate Mr da Silva or the rest of them.

Mr da Silva's lack of experience in office is worrying. Markets are concerned about any uncertainty, particularly in a country where the debt dynamics are so critical and complicated. Mr da Silva says that he will not keep Arminio Fraga, one of the world's most respected central bankers, as governor of the central bank. He has given no indication of a successor or a new set of inflation targets. This is dangerous given Brazil's current financial needs and the unwillingness of international capital markets to finance them.

Mr da Silva could, of course, have avoided all of this tension if he and other candidates had followed the advice of Pedro Malan, the current finance minister, who proposed a pre-campaign agreement on basic economic policies that would be maintained to prevent the type of attack that the *real* has suffered. This agreement did not meet the electoral needs of the candidates. Brazil's new president will suffer from an increased debt burden that was entirely avoidable had he presented information in a transparent and consistent fashion to both markets and voters.

Tony Spanakos
Universidade de Brasilia
Brasilia

SIR – The cartoon accompanying the “World this week” (October 12th) depicts a footballing Mr da Silva, trying to score a free kick on “prosperity” from just outside the penalty box though admittedly from within a deep pit. There is no goalkeeper nor a defensive wall. Having witnessed the free-kicking prowess of Brazilians past (eg, Rivelino and Zico) and present (Rivaldo, Roberto Carlos and, as the English will recall ruefully, Ronaldinho), the opportunity as depicted seems a certain goal for Brazil.

David Rhys Davies
Austin, Texas
Editor's note: this cartoon does not appear in our web edition

Romania's learning curve

SIR – In your survey of finance in Central Europe (September 14th) you claim that Silviu Brucan, a former adviser to Nicolae Ceausescu, was right or even optimistic to state that “it would take 20 years for Romanians to learn about democracy.”

It is hard to believe that Mr Brucan, Moscow's hatchet man in Romania for decades prior to 1989, knows anything about democracy much less can teach it to anyone. His mistake (and, unfortunately, yours) is

to equate capitalism with democracy. Many democracies are free-market oriented nowadays, but capitalism is quite happy under autocratic regimes that tolerate it.

Mihai Azimioara
La Jolla, California

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The war on terror

When local anger joins global hate

Oct 17th 2002
From The Economist print edition

Reuters

Terrorism in South-East Asia takes a new, and much more worrying, turn

Get article background

EVEN before the bombing in Bali last week, South-East Asia had already earned a reputation as a hotbed of terrorism. Over the past year, bombs have exploded at bus stations, street markets and church services in the Philippines, and across Indonesia on the islands of Java, Sulawesi and Ambon. The governments of Malaysia and Singapore claim to have uncovered terrorist cells planning big attacks. America considered Abu Sayyaf, an Islamic militant group in the southern Philippines, threatening enough to send troops to help fight it. Investigators discovered that senior al-Qaeda figures, not to mention some of the September 11th hijackers, had spent time in the region.

South-East Asian governments have been floundering in the face of these threats. Malaysia and Singapore keep arresting more suspected terrorists, an indication that their networks have spread more widely than the authorities at first imagined. Meanwhile, Indonesia's failure to crack down on Islamic radicals drew criticism from around the world.

The outrage in Kuta might seem like a sad but inevitable continuation of this trend. In fact, it marks a new and even more worrying departure. First, it was much more sophisticated and bloodthirsty than any previous attack in the region. Second, it was aimed at western tourists, rather than the local or regional targets of most past attacks. Most disturbing of all, it suggests co-operation between local and international terrorists.

The bomb that went off in Manado, on the island of Sulawesi, at the same time as the Bali blast, is the sort that South-East Asia is used to. It targeted the Filipino consulate, presumably in protest at the current Filipino military campaign against Abu Sayyaf in the nearby Sulu archipelago, and did little damage. Even the more deadly bombings in South-East Asia in recent years, such as those that struck the Jakarta stock exchange and a number of churches around Indonesia in 2000, appear to have been motivated by parochial grievances.

But the Manado attack was different in one critical detail: its apparent co-ordination with the Bali bombings. Until now, there has been scant evidence that local militant groups were co-operating with more sophisticated outsiders. Militant Indonesian groups, for example, have vociferously denied any connection to al-Qaeda and ridiculed Mr bin Laden.

That is not to deny the presence of al-Qaeda, or at least some internationally inspired and trained terrorists, in the region. In the early 1990s, Ramzi Yousef, mastermind of the first attack on the World Trade Centre, lived in Manila. Last year, the government of Singapore uncovered—and foiled—a plot to blow up the American embassy there, based on documents found in Afghanistan. Yazid Sufaat, a Malaysian, had played host at different times to two of the September 11th hijackers and the suspected mastermind of the attack on the *USS Cole* in Yemen in 2000. But, to this day, the Malaysian government denies that al-Qaeda ever established a local cell. If it is true that al-Qaeda and local groups conspired together in the Bali bombing, that is a new departure. On October 17th, bomb blasts in a shopping mall in the largely Christian city of Zamboanga, in the Philippines, killed five people and injured at least 144. This, too, may be part of a newly co-ordinated series.

The irony of all this is that Indonesia had just begun to crack down both on possible international terrorists and on local militant groups. Since September 11th, it had been co-operating with America behind the scenes while trying to appease local militants with a non-committal public stance. Earlier this year, for example, it secretly handed over two foreign terrorism suspects to American officials. But Indonesian authorities made no move against local militants, such as Laskar Jihad or the Islam Defenders Front (FPI), a vigilante group. And they kept on insisting that they had no grounds to act against Abu Bakar Basyir, an extremist preacher considered by Singapore and America as the leader of Jemaah Islamiah, the terror network they believe lies behind many of the region's latest bombings.

But on October 1st, the Indonesian security services announced a change of heart. They said they had arrested another foreign terrorism suspect, this time from Germany, and planned to interrogate him themselves. They also said that they wanted to question one of the suspects they had so hastily palmed off on America earlier in the year. Most strikingly, they called on parliament to pass a new terrorism law, which might provide grounds to arrest the likes of Mr Basyir.

Local militant groups have also come under pressure. For four years now, FPI has bombed and ransacked bars and nightclubs in the name of Islamic propriety with no protest from the police. But earlier in October, the police arrested nine of its members for a similar rampage. On October 16th, they also summoned the leader of the group for questioning. Jaafar Umar Thalib, the leader of Laskar Jihad, is currently on trial for inciting a Muslim mob to attack a church. The rest of the group, seeing which way the wind is blowing, has announced that it is disbanding.

The Bali bombing should make it easier for Megawati Sukarnoputri, Indonesia's president, to pursue this crackdown. The carnage has humiliated political rivals such as Hamzah Haz, the vice-president, who used to court Islamic militants by dismissing all claims of terrorist activity in Indonesia as American propaganda.

But even if the Indonesian government does set about the war on terror with greater vigour, it may not get very far. Throughout South-East Asia, as elsewhere, the biggest obstacle to catching terrorists is a lack of good intelligence. In the Philippines, the army was reduced to tracking Abu Sayyaf by following the runners who delivered pizza to the insurgents. Even Malaysia and Singapore, with well-funded and efficient police and security services, appear to have made their first arrests on the basis of foreign tip-offs. Indeed, officials there seemed astonished to find terrorists in their countries at all.

Throughout South-East Asia, as elsewhere, the biggest obstacle to catching terrorists is a lack of good intelligence

Countries such as Indonesia and the Philippines are worse off still. Their security services—under-funded, undisciplined, under-trained and over-stretched—must police vast archipelagos with lawless and porous maritime boundaries. Lack of computerised records makes it hard to keep track of comings and goings. Teeming cities and steaming jungles provide plenty of good hiding places, especially for local terrorists. If American expertise and equipment could not put an end to Abu Sayyaf—a far more visible and numerous group than most terrorist cells—it is unlikely that Indonesia and its neighbours will do much to scotch them.

Neil Bowler, of the Economist Conferences' team in Singapore, was killed in the Kuta bombing.

He was in Bali with the Singapore Cricket Club.

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The Sari Club bombing

Death in paradise

Oct 17th 2002 | KUTA, BALI
From The Economist print edition

Bali's struggle to find out who did it, and to recover

Get article background

A SOLITARY pair of young western lovers sat forlornly on a moonlit beach in Kuta. Normally, there would have been dozens of such couples. In the shadows, the hustlers who live off the tourist trade wondered what to do. On the other side of the tiny peninsula of southern Bali, teams from the FBI and the Australian federal police, as well as Indonesia's own, tried to decipher the wreckage of the Sari Club discotheque, destroyed on October 12th. In the island's main hospital in Denpasar, piles of ice melted as staff struggled to prevent bodies decomposing in the heat.

By October 16th, only 39 people, out of more than 200 dead, had been identified. By far the largest number were Australians. The rest came from around the world, from Switzerland to Britain to South Korea. Very few were Americans. Since September 11th last year, travellers from the United States have given a wide berth to Muslim countries.

Within hours of the blast, the words “al-Qaeda” were on everyone's lips. The pattern of casualties—mainly westerners, killed in a “decadent” place—made the theory plausible, but far from proven. Others suspected that the blast was the work of the Indonesian armed forces, still run by some of the same shady people as in Suharto's day. A former air force officer was arrested and, some reports said, confessed to making the bomb.

It is likely that the blast was also meant to destabilise the government of President Megawati Sukarnoputri. According to information from Omar al-Faruq, an al-Qaeda operative detained near Jakarta in June, there have already been two plots to assassinate her. Not only is she a woman—and thus unacceptable as a leader to Islamic hardliners—but her “nationalist” agenda grates with many Muslim politicians, who have been trying—so far without success—to make Indonesia adopt *sharia*, Islamic law.

What is clear is that Indonesia can no longer deny that terrorists are active in the country. Almost overnight, the government admitted—as it had to—the gravity of the problem. The Sari Club bomb coincided with two others in Bali, one near the American consulate. A few hours earlier, another explosion had occurred outside the Philippine consulate in Manado, on the island of Sulawesi.

Hardline Islam finds few takers in Kuta. Bali is a largely Hindu place—which is why, after the bombing, so many wreaths of flowers appeared on the bomb site, offerings to the gods. The attack has reinforced the anti-Muslim prejudices of many Balinese. They say they remember seeing groups of Indonesian men in Arab shawls strolling around the resort in the weeks ahead of the bombing. Like non-Muslims in other areas, they have complained for years of having Muslim officials—often men with military connections—foisted on them by Jakarta, and of having to make room on their soil for tourism projects financed by Javanese.

They will be lucky now to see tourism projects of any kind. The industry, which has been depressed for a while, was just starting to recover, and was one of Indonesia's few remaining assets. Tourism brought $5.4 billion into the country in 2001; over 1m tourists visited Bali. Officials think the industry may not revive for two years. Domestic investment was slowly picking up, too; it is bound to dip again if the government cannot show it has terrorism under control. The tiny trickle of foreign investment may well dry up completely if outside companies leave.

A few beach-bums were still defiantly riding the waves in Kuta last week. But nearly every hotel has a story of guests who have died. And with a string of embassies now adding Bali to their lists of danger-

spots, it will be some time before the outside world seeks either pleasure or business there again.

Neil Bowler, of the Economist Conferences' team in Singapore, was killed in the Kuta bombing. He was in Bali with the Singapore Cricket Club.

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Australia's reaction

The no-longer-lucky country

Oct 17th 2002 | CANBERRA
From The Economist print edition

What are Australia's priorities now?

Get article background

THE rest of Indonesia may be a mystery to most Australians, but Bali is one part they have long understood. They have flocked there for 30 years, especially recently, when the declining value of the Australian dollar made it one of the last places where they could enjoy a cheap holiday abroad. Bali had everything: a touch of Asia on their northern doorstep, tropical beaches to rival their own, friendly locals who welcomed their money, colourful nightlife—and safety. All that was shattered on the night of October 12th.

Most of the victims were young and single, many on their first trips abroad. Their ranks were swelled by football teams from Sydney, Perth, Adelaide, the Gold Coast in Queensland and Forbes, an outback town in New South Wales, celebrating the end of the Australian football season. All the teams lost “mates”. John Howard, the prime minister, warned Australians to prepare for a much higher death toll and condemned the bombing as “barbaric, brutal mass murder”. On October 17th, all Australians were urged to leave Indonesia.

But more was shattered than lives and families. Australia has lost, perhaps for ever, its happy sense of security as a relatively isolated country. Before October 12th, disasters were what nature brought: floods, fires, drought. The Bali bombing is likely to be a watershed for Australia's engagement with its region, particularly with Indonesia, its largest and most volatile neighbour.

Relations with the world's biggest Muslim country have rarely been smooth. Mr Howard is now bound to demand that the Indonesian government take a tougher stand against Muslim extremists. He was quick to declare his “suspicion” that the Bali bombing was linked to al-Qaeda through Jemaah Islamiyah, a mysterious Indonesian terrorist group. Australia has sent plenty of manpower to Indonesia to help find the bombers. But it now appears that its own intelligence agencies failed to heed two American warnings: one about cells in Indonesia linked to al-Qaeda, and the other, two weeks before the bombing, advising travellers to avoid Bali.

Some wonder whether the bombing was linked to the conservative coalition government's strong support for President George Bush's war on terrorism and his plans to attack Iraq. Mr Howard has dismissed such suggestions. But after Australia has gone through a national day of mourning on October 20th, his government will have some serious thinking to do. It must reconsider its decision to make Asia a lesser priority in foreign policy. Meanwhile, an angry and confused country may well demand that Australia should pour its energy and resources not into helping America fight distant Iraq, but into helping its neighbours fight terror.

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Al-Qaeda

An ever-shifting web

Oct 17th 2002
From The Economist print edition

Weakened but still growing

WAS Bali part of a pattern of new al-Qaeda attacks? George Bush thinks so. On October 14th, he linked the nightclub bombing to two other recent incidents: the apparent suicide bombing of a French-flagged ship, the *Limburg*, off Yemen on October 6th, and a series of shootings, by civilians in pick-up trucks or sports-utility vehicles, at American marines training in Kuwait. On October 8th, one marine died in such an attack and another was wounded—and this in the most pro-western country in the region.

American intelligence officials agree with the president. Investigators are still examining the hole in the *Limburg*, but they have found the fibreglass wreckage of a small boat, and are beginning to treat the incident as a near-copy of the al-Qaeda attack on the *USS Cole* off Yemen two years ago. In Kuwait, local officials say 15 men have confessed to helping plan the shootings of October 8th; some are said to have links with al-Qaeda, and to have trained in its camps in Afghanistan.

These attacks have coincided with the possible re-emergence of al-Qaeda's top men. On October 7th, the al-Jazeera TV station in Qatar broadcast an audiotape in which, allegedly, Osama bin Laden promised to repay the United States “twofold” for any attack on Muslim countries. A week later al-Jazeera received a fax, apparently signed by him, which praised the attacks in Yemen and Kuwait as a strike at “the umbilical cord of the Christians” and said that neither al-Qaeda nor the Taliban had been weakened. Another audiotape was aired on October 8th, this time from Mr bin Laden's top aide, Ayman Zawahiri: it, too, praised the attack on French interests, and advised these “deputies of America”, to retreat from the region “before they lose everything”.

Mr Zawahiri was thought to have been wounded last winter, in an American air strike in Afghanistan in which several of his family died. He may have fled to Pakistan. His audiotape appears both genuine and recent. About Mr bin Laden, intelligence officers are less sure. He last surfaced on a videotape made in December, and his audiotape contained no contemporary information. The fax, which does, has not been firmly linked to him. But he, too, may be in Pakistan. Al-Qaeda is known to be recruiting and seeking allies among Pakistani militant groups; and another senior al-Qaeda figure, Khalid Sheik Mohammed, is believed to be directing worldwide operations from a hiding-place in Karachi.

But western intelligence officials increasingly believe that the nature of al-Qaeda has changed, and that the Bali bombing demonstrates it. Weakened by the disruption of its finances and communications, with its base destroyed and its leaders in flight, it has become a loose and ever-shifting alliance of like-minded groups. These, though they may share a common militant Islamist ideology, are essentially independent cells working locally. Rather than enormous orchestrated set-pieces, like the attacks of September 11th, their operations are smaller and—for all the wild rhetoric—less ambitious.

They remain extremely dangerous, not least because such “killer cells”, as Mr Bush calls them, seem to be both growing and spawning imitations. But the president remains confident that America can fight terror simultaneously on this front and in Iraq. In his mind, of course (though he has not yet produced the evidence), they also remain connected. “We need to think”, he said on Monday, expanding this unproven theme, “about Saddam Hussein using al-Qaeda to do his dirty work, to not leave fingerprints behind.”

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Neil Bowler

Oct 17th 2002
From The Economist print edition

Neil Bowler, of the Economist Conferences' team in Singapore, was killed in the Kuta bombing. He was in Bali with the Singapore Cricket Club.

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The mid-term elections

The battle for Iowa

Oct 17th 2002 | DES MOINES
From The Economist print edition

Getty

Sometimes, one state and one issue embody an election. In 2000, it was Florida and its tied vote. In 2002, it is Iowa and the power of incumbency

EVERY fourth winter Iowa becomes the centre of American politics when its caucuses start the presidential primaries. Otherwise the state is largely ignored. It is too small, too agricultural and too mono-ethnically white to be the centre of anything. But this year, though the presidency is not at stake, election-watchers' eyes are fixed on boring old Iowa.

Iowa has become a classic swing state. In 2000, Al Gore won it by fewer than 5,000 votes. Now it is one of four states in the upper mid-west with a close Senate race. It is one of three where other state-wide races are close, too (along with Minnesota and South Dakota). And, uniquely in a country where most congressional districts have been gerrymandered on behalf of incumbents, Iowa lets a non-partisan panel design its districts. Four of the state's five House seats have competitive contests, so its 3m people will decide more real battles than the 86m people in California, New York, Texas and Illinois.

If the Republicans are to take back the Senate, they probably have to win Iowa or another mid-western state. If the Democrats are to regain the House of Representatives, Iowa represents their best shot at winning a block of seats. Alas for both, and for those hand-rubbing election-watchers, neither looks likely to happen.

The first and most important reason is, wait for it, incumbency. Iowa has not booted out a senator since 1984, or a governor for 40 years. Tom Harkin, the Democratic senator, won in 1984 and is now seeking a fourth six-year term.

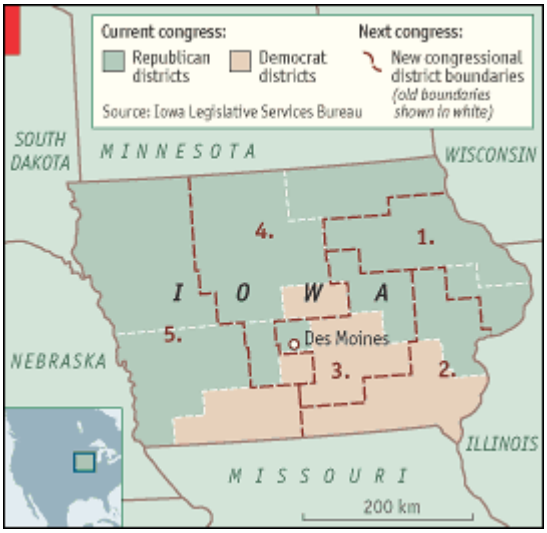
A few analysts, including John Zogby, a pollster, have argued that incumbency will be a liability this year because voters think it is “time for a change”. That has not happened since 1994, when Newt Gingrich's Republicans swept to power, and very little in Iowa bears out the idea that it could happen again.

Incumbency builds name-recognition. Everyone knows Mr Harkin. Fewer than three-quarters knows his Republican challenger, Greg Ganske, a plastic surgeon turned congressman. He represents the state's biggest city, Des Moines, but is not a familiar name outside it.

It is true that name-recognition is a mixed blessing for Mr Harkin. A prairie populist with a left-wing voting record, he provokes the same sort of frothing at the mouth among conservative Iowans as Bill Clinton does among conservative southerners. He has won each of his re-election fights with a successively smaller portion of the vote.

This year, his campaign reduced his chances further by an extraordinary self-inflicted wound. In September, a Harkin supporter wangled an invitation to a meeting at which Mr Ganske discussed strategy with the White House's political director, Ken Mehlman. A transcript of the supposedly private meeting was released to the local press. The Harkin campaign then forgot the adage that “it's not the crime but the cover-up.” It lied about its involvement, claiming it had nothing to do with the tape or leak—charges it later conceded. Republicans demanded a criminal investigation: taping private meetings is illegal.

In some circumstances, this could have sunk Mr Harkin. But county prosecutors deemed the meeting to be a public one, so the taping was legal. And Mr Harkin's people blamed everything on a junior member of the staff, now suddenly an ex-member. Unless more evidence comes to light, the episode seems to have ended without affecting Mr Harkin himself. His poll lead fell only from 12 to nine points.



Part of the explanation for Mr Harkin's resilience is personal: he is a veteran of house-to-house combat; Mr Ganske is ill at ease in campaign warfare. Mr Harkin's campaign is also better financed and organised. But the biggest factor is the advantage that incumbency provides in the Senate, and the use he has made of it.

The chamber operates on the old-fashioned principle of seniority. Long service equals top jobs. Mr Harkin is chairman of the Senate's agriculture committee. This matters because Iowa produces more food per head than any other state.

This year, the farm bill came up for renewal, a job that begins in Mr Harkin's committee. The bill authorises spending $180 billion over ten years, and Iowan farmers will get more per head than any other state's. Mr Harkin shepherded the bill through the Senate. Mr Ganske voted against it in the House (hoping for more).

For the first time, Mr Harkin has won the endorsement of the state's largest farm organisation, the Iowa Farm Bureau Federation. This body usually prefers Republicans but is hardly likely to snub the farmer's best friend in Washington. David Yepsen of the *Des Moines Register* thinks the benefits of seniority are Mr Harkin's strongest defence against the argument that it is “time for change”.

For an incumbent, the most dangerous re-election battle is usually the first, which takes place before you have built up a long record. That is one reason why Tom Vilsack, the one-term Democratic governor, is having a harder time in his race than Mr Harkin is in his. The other is that Iowa's finances are suffering, like every other state's. The governor argues he has done as well as he could in the circumstances (the state still has a small surplus). More intriguingly, he has latched on to Mr Harkin's coat-tails, claiming they are both working on the same issues—health care and drug costs—in different ways. So far, that has been enough to give Mr Vilsack an edge over his Republican challenger, Doug Gross, who served as chief of staff to Mr Vilsack's Republican predecessor.

Perhaps the most intriguing test of incumbency, though, comes in the House races, thanks to last year's redistricting after the 2000 census. The map produced by Iowa's admirably independent commission has produced competitive races everywhere except in the predominantly Republican west. Four of Iowa's incumbents have a race on their hands.

Consider the second district. Jim Leach, a Republican, has been in Congress even longer than Mr Harkin. His old district included a lot of unionised factory workers, most of whom vote Democrat; he kept their support with one of the least conservative voting records of any Republican, including a vote against the war-on-Iraq resolution. His new district includes five counties from his old one, but adds in ten new counties—all of them Democratic, according to Dennis Goldford of Drake University in Des Moines. In what is close to a new district, Mr Leach looks vulnerable. There is a similar story in the third district, where the struggling incumbent is a Democrat. The Republicans in the first and fourth districts look only a little safer.

Iowa holds one last lesson for 2002. Both the Republicans and the Democrats have been trying to “nationalise” the election—to make it about nationwide issues (the economy, if Democratic; national

security, if Republican). In Iowa, local issues prevail. Iraq plays almost no role, even though on this Mr Harkin is a prominent opponent of Mr Bush. Kitchen-table issues have been localised: witness the farm bill. Even the debate about prescription-drug cover has been turned into a complaint that New York and Pennsylvania do better from the Medicare system than Iowa.

If local issues are what really matter, this election will not be won by a national campaign or a nationwide swing. It will be won or lost one state and one race at a time—and the incumbents, as ever, will start with a big advantage.

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The elections in Hawaii

Ready to erupt?

Oct 17th 2002 | HONOLULU
From The Economist print edition

After half a century of one-party rule, pressure for change is building

WHATEVER its outcome, the governor's race in Hawaii would have pleased Patsy Mink in one respect. Both the main candidates are women, only the second time this has ever happened in America. Ms Mink, who died in office last month at the age of 74, was the first Asian-American woman elected to Congress, in 1964, and an ardent fighter for the underdog. For many of the Hawaiians who filed past her coffin as it lay in the state capitol earlier this month, Ms Mink embodied the best of the state's Democratic tradition.

That tradition is now being tested, for the opinion polls give a small lead in the governor's race to the Republican. Linda Lingle, a former mayor of Maui County, blames the state's lousy economy on the Democrats and demands change. Mazie Hirono, the Democratic candidate and currently lieutenant-governor, has responded by adding “responsible change” to her promise of continuity with the past.

Democrats have held sway in Hawaii since before it became a state in 1959. Japanese Hawaiians, who had come to work on the islands' plantations and who fought for America in the second world war, deeply resented being excluded by the plantation owners. In 1954, they voted pretty solidly for the Democrats, and have not deserted the party since.

An example of this is Daniel Inouye, a much-decorated ex-soldier of the famous Japanese-Hawaiian 442nd Regiment, who became the state's first congressman and was then elected to the Senate in 1962. He is chairman of the defence part of the Senate's appropriations committee. His seniority has won for the islands a steady stream of federal projects, including an excellent computing centre.

But longevity can breed bad habits, such as complacency and even corruption. The man who was originally the leading Democratic contender for governor, the mayor of Honolulu, dropped out of the election after an investigation of his fund-raising from supporters in the construction industry. Ms Hirono, who had previously retired from the race but then came back in, sneaked past a primary challenge from Ed Case, a conservative Democrat, by 2,600 votes in September.

One target for the Republicans' Ms Lingle is the state's ossified schools: its pupils come 39th out of the country's 50 states in reading, 35th in maths. Ms Lingle wants to split Hawaii's single school district into seven local school boards. She has taken the same “home-rule” approach to other issues, including water use. Ms Hirono replies that devolving power to individual islands or to regional boards will mean more layers of bureaucracy, not less of it.

On many other issues the candidates are not so far apart. Ms Lingle is a pro-abortion, green Republican; Ms Hirono a centrist Democrat. Both make much of Hawaii's desire to control its future. The plantation owners may have left, but the state's economy still depends on outsiders, such as tourists (whose spending accounts for 23% of the state's $42 billion gross income) and the Pentagon (15%).

“Diversification” is therefore much in demand. Lately there has been evidence that something may come of it. Generous tax breaks have helped high-tech start-ups. The University of Hawaii is trying to set up a biotech cluster. Maui has successfully touted itself to the film industry as a stand-in for Africa, the Caribbean and even Mars. Ms Lingle and Ms Hirono both promise to continue these projects.

The importance of arriving first

Ms Hirono's best chance of winning may have less to do with policies than with her origins. She came to

Hawaii from Japan when she was eight, and she has hinted in her television commercials that Ms Lingle, who was older than that when she arrived from the mainland, is less in tune with “our people” than she is, and that her rival's campaign is being financed by other such “outsiders”. By last month, Ms Lingle had raised $3.35m compared with Ms Hirono's $1.26m.

One reason why outsiders are interested in Hawaii is the Senate race. Mr Inouye and Senator Daniel Akaka look robust enough, but both are 78 and, with their terms due to run until 2004 and 2006, Ms Mink's sudden death has reminded Hawaiians that politicians are mortal. If one of them were to leave office early, the governor would appoint his replacement.

Who will win? Ms Hirono does better with deep-rooted Japanese and Filipino voters, whose party loyalty remains firm. Ms Lingle does well with newer arrivals and with whites, who make up just over a quarter of the electorate. The result may be decided by modernising Democrats, the sort of people who supported Mr Case's pro-business platform in the Democratic primary. His message was closer to Ms Lingle's than to Ms Hirono's. But he was a Democrat: for many Hawaiians, voting Republican may still be a change too far.

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The sniper, risk and public reaction

The logic of irrational fear

Oct 17th 2002 | WASHINGTON, DC
From The Economist print edition

The reaction to the sniper reveals a lot about Americans' perception of risk

THE suburbs of the nation's capital are locked down. The Washington Area Girls Soccer League went on with its 2001 tournament despite the September 11th attacks. This year's event was cancelled because of the sniper who has killed nine people in the Washington area. Hundreds of schools have been operating under a “code blue”, which prohibits all outdoor activity. Autumnal trips to pumpkin patches have been cancelled. And for those who dare to venture out of their homes, traffic dragnets designed to trap the killer's white van cause hours of delay.

Contrast that with the reaction to September 11th. Then George Bush went on television urging the country to start spending again, to travel again and, in so far as possible, not to let daily life be disrupted. What accounts for the difference?

There are two and a half “logical” explanations. First, the nature of the events themselves. The enormity of September 11th put it in a category of its own. It was perceived as a one-off event, even though al-Qaeda is continuing its war. The sniper's attacks are much more obviously part of a series; indeed, he is constantly compared to other serial murderers.

Second, the political and legal concerns of the relevant authorities differ. Last year Mr Bush needed to reassure America that “terrorists would not win”. For school superintendents, the small risk of having a child shot far outweighs the passing inconvenience of cancelled events. They also run the risk of being sued.

The half-logical explanation concerns the scale of the sniper-murders. The nine murders took place in five counties with a total population of 3.1m. Over the course of the two weeks the sniper has been at work, there was a one-in-344,000 chance of being killed by him. That figure is tiny, but it equates on an annualised basis to a theoretical murder rate of 7.5 for every 100,000 people. That compares with a murder rate of 3.4 for those counties in 2000 (the last year for which all figures are available). And three-quarters of the area's “ordinary” murders took place in one county, Prince George's. The annual rate for the other four counties is only 1.4. In theory, the risk for their inhabitants has been raised several times by the sniper.

Experts seem to agree that Americans find it harder than most people to evaluate risks accurately

This is mathematically logical—but it is also bogus. The sniper cannot continue at the same rate; he has already had to slow down, and he was nearly caught at his last murder. He will surely either stop or be caught.

So it is fair to say both that people are understandably alarmed, and that they are still exaggerating the risk. Why? Experts seem to agree that Americans find it harder than most people to evaluate risks accurately. Lawsuits, labels on coffee cups (“Warning: the beverage you are about to enjoy is extremely hot”), even political pronouncements all often suggest it is possible to avoid danger altogether.

Beyond that, there are a number of specific reasons why potential victims in any country would find it difficult to evaluate the risk from the sniper. People generally exaggerate spectacular but low-probability risks, such as murder or natural disaster, just as they underestimate more common risks, such as accidents in the home.

In this case, adds Kip Viscusi, an economist at the Harvard Law School, Americans face a new sort of risk—and people do not know how to evaluate something they have never seen before. There has never

been a serial killer like the sniper. Other serial murderers have preyed on particular groups—often young women or boys. The sniper has killed randomly at a distance. This means no one in the Washington area can give any reason why he or she should not be the next victim.

Because the risk is new, it is also uncertain. As Mr Viscusi points out, people tend to overestimate unknown risks. Economists call this “risk-ambiguity aversion”. And in this case the main source of information for Washingtonians is the blanket, sometimes hysterical coverage from television and newspapers, which tends to exaggerate the perceived risk further. Everyone knows the number of murders. Few know how many people live in the affected area, or the murder rate.

Lastly, the sniper-killings share some peculiarities with other risks that are also exaggerated. One of the victims was a child—and parents dramatically overestimate any uncommon threat to their children's lives (such as the risk of kidnapping by a stranger). Similarly, the sniper represents an “involuntary” risk, not one you run willingly for a benefit (such as driving too fast to get somewhere). People worry less about voluntary risks.

Worst of all, the risk is hard to mitigate. You cannot easily lessen it by changing behaviour—like wearing a seat belt. The only way to remove yourself from the sniper's mercy is not to go out at all. But that brings out another unusual side to this case. On the roads, the more people drive carefully, the lower your own risk. Here, if more people stay home, your risk actually rises marginally. If, say, the sniper chooses a commercial parking lot and only half the usual number of customers are there, your chances of being a victim double.

In such bizarre circumstances, fear can easily seem exaggerated. But it is hardly irrational to be scared and perplexed.

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Death and politics in Illinois

The tale of two Ryans

Oct 17th 2002 | CHICAGO
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Today's Republican governor pulls the rug from under his would-be successor

AP

George, the clement Ryan

DEATH and politics met in Illinois this week. By order of George Ryan, the lame-duck Republican governor, the state's Prisoner Review Board began an unprecedented series of clemency hearings on the cases of about 140 people awaiting execution on Death Row. If all are exonerated, it would be the largest such reprieve America has ever seen. It may not, however, have the same effect for Jim Ryan, the Republican gubernatorial candidate.

Illinois has been at the forefront of the debate about the death penalty since George Ryan's decision in January 2000 to order a moratorium on executions in the state. The move surprised Mr Ryan's conservative colleagues, since he had previously been in favour of the death penalty. He seems to have changed his mind after coming within days of executing a man who was then found to be innocent.

Of some 290 people sentenced to death in Illinois since 1976, 13 have later been found innocent. Mr Ryan, who is leaving office in January, ordered clemency hearings for the current inhabitants of Death Row after a bipartisan commission reported in April that there are serious flaws in the system for handling capital-punishment cases. The Prisoner Review Board is now examining that claim, and will make non-binding recommendations to the governor, who has the final say. More than 20 other prisoners awaiting execution who have not signed clemency petitions will also have their cases sent to the governor. Some public prosecutors, who want Mr Ryan to cancel the hearings, have sent the relatives of murder victims to give emotional pleas to the board.

Of some 290 people sentenced to death in Illinois since 1976, 13 have later been found innocent

The most politically charged case is that of Rolando Cruz, who is now free but is seeking pardon for a past conviction. Mr Cruz was judged guilty of the rape and murder of a ten-year-old girl in 1983. When a convicted murderer serving two life sentences later confessed to killing the girl, the office of Jim Ryan, then state's attorney in the county where Mr Cruz was convicted, not only refused to pursue the man who had confessed but re-tried Mr Cruz twice after courts had overturned his conviction. Eventually, DNA evidence helped to acquit Mr Cruz, who now wants compensation for the years he spent in prison.

Jim Ryan, who detests George Ryan (even though they are not related), was already behind his Democratic opponent, Rod Blagojevich, in the opinion polls. The fact that a group of lawyers has said that his handling of the Cruz case makes him unfit for the state's top job is not going to help. He filed two suits, unsuccessfully, to block this month's clemency hearings.

The hearings could also hurt Joe Birkett, the Republican candidate for the attorney-general's job, who is currently state's attorney in the county where Jim Ryan once served. Mr Birkett is having a tough fight with Lisa Madigan, daughter of one of the state's most powerful Democrats. The Democrats are trying to suggest that Mr Birkett, too, is tainted by the county office's campaign against Mr Cruz.

Most Americans say they favour capital punishment. But according to an opinion poll this month by Zogby International, the clemency issue divides the people of Illinois almost half-and-half. Just under 50% oppose clemency for the occupants of Death Row, but 45.5% are in favour of giving them life sentences. Next month's voting may show, among other things, which of the two Ryans' views on the

matter Illinois prefers.

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The Missouri election

Unguessable

Oct 17th 2002 | ST LOUIS
From The Economist print edition

The strangest race of all?

MISSOURI is holding one of the odder Senate races in the country. First, it is an election outside the normal six-year Senate cycle. The incumbent, Jean Carnahan, was appointed after her husband, Mel, a candidate in 2000, died in an aircraft crash three weeks before election day. The voters picked him anyway, knowing his widow would take his place for two years. The new election decides who will serve the rest of the six-year term.

That could have immediate and unusual political implications. As the term has started, the winner does not need to wait until January to be seated, as other new senators do—and this year Congress will be brought back for a lameduck session before inauguration. If the Democrats retain control in the new Senate, but the Republican candidate, Jim Talent, wins in Missouri, he would tilt the one-seat balance of power in the old Senate back to the Republicans. They could then use their lame-duck control, say, to confirm George Bush's judicial nominees in an eight-week blitz.

But will Mr Talent win? The race has been close, albeit in a bizarre way: the lead has ping-ponged back and forth, with Mrs Carnahan six points up one week and Mr Talent six up the next. The political differences are small. Mr Talent is a conservative trying to sound like a moderate. Mrs Carnahan is a moderate trying to sound conservative (she has voted with Republicans 71% of the time). But the personal differences are striking. He is a 46-year-old smooth-talking city slicker, she a 68-year-old grandmother with a farm.

Another oddity is that the challenger has a longer record than the incumbent: Mr Talent has done four terms as a Republican congressman. Mrs Carnahan has done quite respectably in her two years. She smoothed away anti-trust objections to a job-saving takeover of Trans World Airlines (which employed 12,000 people in St Louis) and voted for big defence contracts for local aerospace firms. But it is not much to go on.

With the voters not really knowing what the race is about, it is possible that external factors—Mr Bush's popularity, Iraq, out-of-state advertising—could make the difference. But a duel that could have a nation-wide impact is notable chiefly for its idiosyncrasies.

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Seattle's transport

Going nowhere

Oct 17th 2002 | SEATTLE
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Pay nine cents more and you could speed up a little

EACH day, Tom Myers commutes to work from a suburb east of Seattle. Thirteen years ago, when he moved to his present house, the drive took 30 minutes. But in the past decade hundreds of new neighbours have started to clog roads originally laid out for a farming community. Now it takes close to two hours.

Mr Myers is one of thousands of motorists in Washington state who are increasingly vexed by its inadequate roads, decaying bridges, rusting ferries and barely visible public-transport system. Transport engineers have big plans to put everything right—new lanes along interstate freeways, widened bridges, new trains and more. But these will cost billions of dollars. And money does not grow on trees in Washington state. (If it did, there would certainly be no shortage.) Three years ago, the voters approved a cut in vehicle-licensing fees that gutted the state's ability to raise cash for transport. So the politicians are now asking voters like Mr Myers to relent a little. Perhaps they would not mind paying a slightly higher petrol tax?

Politicians in Olympia, the state capital, could not bring themselves to pass such a thing into law. So the transport bill which was the focus of last spring's session has been tossed out of Olympia, labelled “Referendum 51”, and set before the voters, who will decide on November 5th whether a few more cents on their petrol will be a cheap price for less congestion.

The proposed tax rise, of nine cents a gallon (3.8 litres), would lift the price of a gallon of mid-grade petrol to about $1.60. All hell, of course, has broken loose. Greens, who want less money spent on roads anyway, have joined up with anti-tax enthusiasts to fight the measure. Voters in the eastern half of the state grumble that most of the money will end up in Seattle, in the west. And Referendum 51's supporters seem to have little positive to say for it, except that it will help emergency services reach fires more quickly. Polls suggest that the measure will be lucky to squeak through.

Other transport propositions are on the ballot. One would freeze the tax on private cars at $30 a year. This tax used to be levied on the value of the car (for instance, $600 on a $20,000 car). Much of that money was spent on the roads. But a 1999 initiative slashed the car tax and subsequent efforts to restore it will perish if the initiative is approved. In short, voters are being asked on the one hand to tax themselves to pay for transport, and on the other to cut the taxes that could also pay for it.

In Seattle, a city ballot measure, if approved, will levy $1.7 billion in taxes to build a monorail—an elevated railway that straddles a single large rail. Seattle has had one of these for nearly 40 years, running on a one-mile stretch from the site of the 1962 World Fair to the downtown shopping district. Yet monorails have rarely worked well anywhere except as a novelty. Moreover, approval of this proposal will draw tax money away from other Seattle traffic plans that are still on the drawing board, including one to replace an elevated freeway (which looks horrible and is vulnerable to earthquakes) along the waterfront.

The city's voters have no faith that their elected politicians will ever get to grips with transport. In 1996, for instance, voters approved a $3.9 billion light-rail system. But not an inch of rail has yet been laid, costs have gone up and the system has shrunk to two-thirds of its planned size.

Now comes the legislature's craven failure to pass a petrol tax on its own. “That's what I thought we elect the legislature to do,” grumbles Mic Dinsmore, chief executive officer of the port of Seattle, where freight heading to or from the docks is often snarled in traffic. With transport policy as chaotic as it is, it is hardly surprising that anti-tax hardliners and monorail enthusiasts have rushed to fill the gap.

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Oregon

Fishy stuff at Elk Creek

Oct 17th 2002
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Do you prefer your salmon notched or trucked?

CONTROVERSY is once again bubbling up over the Elk Creek dam in Oregon. The unfinished structure is getting in the way of the dwindling population of endangered coho salmon and steelhead which want to swim up the Rogue river. So for the past few years the fish have been trapped and given a ride to the other side of the dam in trucks run by the local department of fish and wildlife. Now there are two plans afoot—a sensible one to “notch” the dam to let the fish through, and a slightly mad one to step up the trucking system. Guess which is closer to becoming law.

Construction of the dam started in 1986. The idea was to store water and prevent floods, and more than $100m of federal money was put up. But a lawsuit brought everything to a halt the following year. Two reservoirs were subsequently built, taking care of flood control and covering more than the region's current demand for water, so the dam remains unfinished. The Army Corps of Engineers has concluded that it would take another $84m to complete it, and that the dam would yield less than 40 cents for every dollar spent.

A supposedly temporary trap-and-haul facility for the salmon was added in 1992, and 1,500 hapless fish are driven around the dam every year at a cost of $150,000. Some die in the process.

The corps thinks it could notch the dam for $7m. The opposition is led by the local Republican congressman, Greg Walden, an adamant supporter of the dam. He maintains that notching would destroy the chances of ever completing the dam—something that the corps denies. He wants to build a proper, permanent trap-and-haul system for the fish, which the corps says would cost $8m. He has got some money set aside for this in a water-and-energy appropriations bill, which is ready for a vote in the House of Representatives.

Some 50 organisations—including not just the obvious green groups but Taxpayers for Common Sense—have declared this to be barmy. They want the Senate to stop Mr Walden's scheme; and they entertain hopes that the dam will eventually be notched. Until that day, the salmon of the Rogue river must get used to life on the road.

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Lexington

Partisan-in-chief

Oct 17th 2002
From The Economist print edition

Brace yourself: George Bush reckons what's good for the Republicans is good for America

Get article background

GEORGE BUSH likes to pretend that he is above party politics: just a regular guy trying to do his best for the country. He has always made a great to-do about reaching across party lines: remember how he wooed Ted Kennedy over education reform. And he takes every opportunity to escape from Washington's partisan bickering for the bracing common sense of his Texas ranch. Don't believe a word of it. Mr Bush is as partisan a president as America has had.

The laid-back Mr Bush is, in fact, a whirlwind of partisan energy. He has spent more time on the campaign trail than any of his predecessors, and raised far more money for next month's elections ($140m and counting). He plans to hit the road for 14 straight days before the election, sweeping through as many as four states a day and visiting all those with tight Senate races.

Mr Bush has used a disputed election victory to push through a strikingly radical agenda, on everything from tax cuts to military pre-emption. At the same time, he has refashioned the Republican Party in his easy-going image, urging it to swap the angry snarl of Gingrichism for the smiling face of compassionate conservatism. Previous presidents have used placemen to keep an eye on the party machinery. Mr Bush has centralised control of the party in the White House. Karl Rove, Mr Bush's closest adviser, has a hand in everything from shaping high policy to choosing local candidates.

Republicans will bristle at the comparison, but Mr Bush is Clintonian in both his partisanship and his energy. Dwight Eisenhower hardly concealed his disdain for his party. Ronald Reagan—a man who really did go to his ranch to relax—put little energy into supporting Republican candidates, and his party lost 26 congressional seats in the 1982 election. Mr Bush's father had little time for Republican hardliners. The son is thoroughly at home in the world of the permanent campaign.

Republicans will bristle at the comparison, but Mr Bush is Clintonian in both his partisanship and his energy

But Mr Bush has one huge advantage over Mr Clinton: people believe the guff about his being above politics. Mr Clinton could not say “good morning” without people parsing the remark for its political meaning. Mr Bush manages to look above politics even when he is out stumping for his fellow Republicans.

The sheer chutzpah of his performance is driving the Democrats crazy. One moment he is talking about the “urgency” of the Iraqi threat. The next he is spending a fortnight on the campaign trail. One moment he is saying that “we must act, first and foremost, not as Republicans, not as Democrats, but as Americans.” The next he is saying that the Democrat-led Senate is “not interested in the security of the American people”.

Yet they can't lay a glove on him. The majority of Americans regard Mr Bush as a symbol of national resolve rather than as a fallible politician. Opinion polls show that voters don't hold him responsible for the corporate scandals, economic woes or intelligence failures of the past couple of years. Mr Bush enjoys the fruits of partisanship without the thorns.

The most obvious reason for this is September 11th and all that. The country's need to rally around national symbols after the explosion of international terrorism fits in perfectly with Mr Bush's desire to present himself as being above politics. But the Democrats also have themselves to blame. The essence of the Democratic case against Mr Bush has always been that he is too stupid and lazy to be president. They cannot suddenly change gears and accuse him of being a cunning partisan and a hyper-active campaigner. Add to this the fact that the previous Democratic presidency was a by-word for partisanship, and Mr Bush has licence to be as partisan as he likes.

How far is Mr Bush willing to take this licence? Some Democrats accuse him of exploiting the war on terrorism to get Republicans elected. Robert Byrd, on the Senate floor, has described his behaviour as “despicable”. Any number of campus leftists have accused him of inventing the whole drama in order to distract attention from corporate corruption and economic malaise.

There is some truth to the first charge. Mr Rove has repeatedly told Republicans that focusing on the war is the best way to “maintain a positive issue environment”. But there is a huge difference between wagging the dog (inventing an unnecessary war in order to win an election) and wagging the donkey (wringing partisan advantage out of a necessary conflict).

And maybe the clever thing is the right thing...

In the past year, Mr Bush has never wavered in his focus on the war on terrorism. He was an early convert to the idea that terrorist states and terrorist cells are two faces of the same evil. Was he really supposed to abandon the war against terrorism for the duration of the campaigning season? Was he really supposed to forget about building support in Congress and the United Nations until after November? The wag-the-dog accusers may have got things upside down: the once-lackadaisical Mr Bush may be campaigning so hard precisely because he thinks electing Republicans will help the war on terrorism. After all, almost everyone who voted against giving him war powers was a Democrat.

The president's scheme of wrapping himself in the flag while pursuing a partisan agenda carries big risks. The memory of September 11th will eventually fade. The Democrats will learn how to land a few punches. The White House will one day have to deal with the contradiction between boosting spending on security and cutting taxes. A potential backlash could diminish the presidency as well as damaging Mr Bush and his party.

No wonder Republicans regard George Bush as the best thing that has happened to their party since Ronald Reagan

But for the moment Mr Bush's strategy is succeeding spectacularly well. A month ago it looked as if the Democrats stood a good chance of taking both Houses. Now, thanks to Mr Bush's tireless campaigning and relentless focus on Iraq, the Republicans have a reasonable chance of picking up seats in the House and retaking the Senate. No wonder they regard him as the best thing that has happened to their party since Mr Reagan.

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Jamaica's election

The old guard outgunned

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From The Economist print edition

AP

Ageing politicians lack solutions to Jamaica's many problems

IN AUGUST, Jamaica celebrated the 40th anniversary of its independence from Britain. To mark the event, a local newspaper conducted a now infamous poll. To the surprise and horror of many Jamaican politicians, 53% of respondents replied that the country would have been better off had it remained a British colony, while only 15% thought it would have been worse off. So it was perhaps to be expected that the island's general election, held on October 16th, was greeted with some apathy. And the fact that it did not produce greater change says much about the stasis of the island's politics.

P.J. Patterson, the prime minister since 1992, and his People's National Party (PNP) won a fourth consecutive term, but with a sharply reduced majority. Unofficial results suggested that the PNP had won 35 of the 60 seats in the House of Representatives, losing 13 seats to the opposition Jamaica Labour Party (JLP), led by a political veteran, Edward Seaga. “I would have preferred a larger margin,” Mr Patterson admitted. Heavy rain helped to cut the turnout, which has been declining steadily from a peak of 86% in 1980.

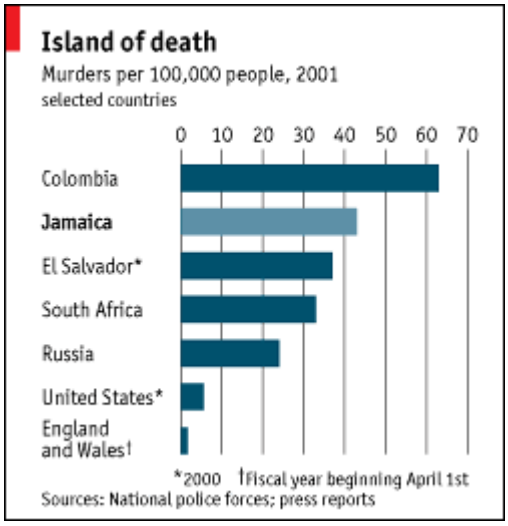
The electorate's lethargic conservatism reflects the seeming intractability of Jamaica's problems. The foremost of these is violent crime. The murder rate rose by 30% in 2001. So far this year, it is down by 14%. Even so, more than 700 people have been murdered since January in a country of 2.6m people. Elections themselves are notoriously violent affairs in Jamaica. But this one was fairly quiet by local standards, with 60 people said to have died in election-related violence. The independent Electoral Advisory Committee decreed a ban on campaigning in six particularly volatile constituencies.

The violence has roots in the political battles of the 1970s between Mr Seaga and the PNP's Michael Manley, a socialist nationalist (still revered as a national hero by many Jamaicans). They began arming their supporters, creating “garrison” constituencies where opponents could not campaign. Political violence peaked in an election in 1980, when 840 died. The garrisons persist, but the gangs have turned to peddling drugs.

That is both cause and effect of an economy that has been stagnating for years, despite jet-set tourist resorts clustered around Montego Bay and Ocho Rios on the north coast of the island. GDP growth of 1.7% last year amounts to a recovery of sorts, but unemployment stands at 15%. The burden of public debt is onerous. Debt payments eat up a massive 9% of GDP.

Under Mr Patterson, the PNP has moved to the right. In 1992, it

embarked on a programme of economic liberalisation and privatisation that still continues, albeit fitfully. Now, the party proclaims a sort of lukewarm third-way Blairism, with ministers preaching the virtues of the Internet and the "knowledge economy". At least Mr Patterson can boast of six successive years of falling inflation, and some social improvements, such as in housing.



As a result, there is now little to choose in policy terms between the PNP and the centre-right Labour Party, which traditionally presented itself as the party of economic competence. This election has therefore turned on personalities, where the PNP has the edge. Though Mr Patterson, at 67, is hardly a new face, Mr Seaga is five years older. Polls suggest a desire for change, but neither man offers it.

By retaining tight control of the party machinery, Mr Seaga has managed to squeeze all life, and many of its brighter prospects, out of the JLP. He has not been helped by a financial scandal, in which a hotel company with which he was involved has been accused of tax evasion (he did not know of this, he says). In short, Mr Seaga has become an electoral liability.

Neither party has offered any convincing answers to the pressing problems of the public debt, the low standard of education, and crime. It will probably take a younger generation of politicians to come up with the fresh, radical ideas needed to turn Jamaica around. Unfortunately, there seemed to be no sign of them emerging at this election. No wonder the electorate appeared unenthused.

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Argentina's collapse

Progress, of sorts

Oct 17th 2002 | BUENOS AIRES
From The Economist print edition

A face-saving deal with the IMF may finally be in sight

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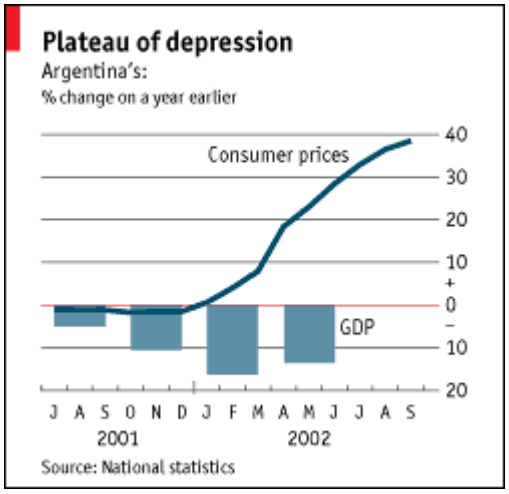

ALMOST since he took over as Argentina's president last January, Eduardo Duhalde has been predicting both a speedy agreement with the IMF, and an economic recovery. Now there are signs that at least the first of these may not be far off. The Fund and the government "have made important progress in the past two weeks in an atmosphere of greater understanding of the Argentine political and economic situation," says Roberto Lavagna, the economy minister, though he cautions that not everything is yet tied up.

Nor have the gloomiest economic predictions come true. Mr Lavagna points to signs of growth: in the second quarter of this year GDP rose compared to the previous quarter, and industrial production has risen almost 7% since April, he says. Instead of hyperinflation, the rhythm of price increases has slowed (see chart). The peso, albeit helped by exchange controls, has held steady for three months at around 3.70 to the dollar.

The government even won a political victory of sorts last week, when Congress killed off a failed effort (inspired originally by Mr Duhalde) to impeach the Supreme Court. Officials hope that the judges will reciprocate by throwing out legal challenges to the economic programme. Meanwhile, a government welfare scheme, in which some 2m poor and unemployed heads of households are given 150 pesos a month, has helped to calm social tension.

Yet any deal with the IMF may owe more to the Fund's need to avoid the embarrassment of a new debt default than to Argentina's progress. While in default to its private creditors since December, Argentina has continued to service debts to international financial institutions (owed almost a third of the total public debt). Or some of them, at least: the IMF has been rolling over Argentina's repayments. But under its statutes, it can only do this for 12 months; thereafter, a debtor in arrears risks eventual suspension from membership.

Argentina is due to repay $10.8 billion to the IMF by December 2003, but has only $9.4 billion in reserves. The government has suggested that from next month it will stop paying the multilateral institutions. Given the size of its payments, that would not only dent the IMF's credibility, but even perhaps the World Bank's credit rating. Adding to the pressure for a deal are worries about Brazil's financial stability.

At most, however, an IMF loan will merely recover Argentina's repayments to the Fund, with perhaps $1 billion in new money. Many in the Fund still have doubts about Argentina's economic programme and, with an election due in March, its ability to stick to it. The issues include whether privatised utilities are to be allowed to raise charges (frozen since January) and doubts over next year's budget.

In addition, the financial system is still in disarray. Many bank deposits have been frozen since last December. But schemes to swap frozen deposits for government bonds have had some success. Officials have hinted that they may lift all remaining restrictions on current accounts next month. But this could provoke inflation.

If and when Argentina reaches an agreement with the IMF, says Mr Lavagna, he will tender for an investment bank to lead talks on restructuring the country's debts to private creditors. These will not be easy: even with a write-down of around 70% of the debt's face value, Argentina might require a larger fiscal surplus. By then a new government is anyway likely to be in charge.

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Crime in Mexico

The very odd couple

Oct 17th 2002 | MEXICO CITY
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Can Rudolph Giuliani make Mexico city safer?

Reuters

Tolerance, Mexico-style

THEY are not obvious political soulmates. So perhaps it is a sign of the gravity of Mexico city's crime epidemic that Andres Manuel Lopez Obrador, its populist left-wing mayor, has turned to Rudolph Giuliani. Last week, Mr Lopez (or AMLO as he is known) announced that he is hiring the Giuliani group, the consultancy formed by the former New York mayor, to advise on cutting crime.

AMLO is not giving up any of his budget for this unlikely venture. A group of businessmen is stumping up Mr Giuliani's fee of $4.2m a year. Nor is it clear how well the two men will get on. Mr Giuliani has been hired because of his success in reducing New York's crime rate, partly through his policy of “zero tolerance”. Whether that could work in Mexico city is unclear. So is whether a left-wing mayor would relish the inevitable charges of human-rights abuses.

But the news of Mr Giuliani's contract has prompted some curious political inversions. The conservative National Action Party of President Vicente Fox has accused AMLO of gesture politics. AMLO's left-wing Party of the Democratic Revolution (PRD) has suddenly begun preaching the virtues of zero tolerance. If nothing else, Mr Giuliani's appointment promises further diverting political somersaults.

Politics apart, what might Mr Giuliani achieve? Mexico city's crime rate appears to have been rising again this year, after having previously peaked in the late 1990s. Mexico city's inner core, governed by Mr Lopez, has 8m people—about the same as New York City. But Mexico city has only two-thirds as many police, in several ill-co-ordinated forces. They earn less than a quarter of their American counterparts, so many cops are corrupt. And even in the rare cases where criminals do get caught, the courts are often too corrupt and inefficient to punish them.

If Mr Giuliani can fix any of that, he will not only have been well worth his millions, he may even be beatified. But without more money from a city government that finds it difficult enough to raise enough taxes to cover its current budget, it is difficult to imagine even Mr Giuliani improving matters.

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Canada's native peoples

From whine to wine

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The new generation means business

WHAT with teenage suicides, sexual abuse, financial scandals and squabbles about stalled land claims, good news is rare for Canada's 1.5m native Indian people. So the opening in British Columbia last month of North America's first native-owned winery is welcome—especially because it signals a new trend.

Nk'Mip (pronounced in-ka-meep) Cellars is a joint-venture between the Osoyoos Indian band and Vincor, a large Ontario-based wine firm. Under the deal, Vincor, which has been leasing vineyards from the band since 1979, will get 520 hectares (1,300 acres) of new vines in Canada's warmest climate (adjacent to its only desert). In five years, the winery should be producing 15,000 cases a year of chardonnay, pinot blanc, pinot noir and merlot. For the Osoyoos, the winery means jobs and a share of profits. It is the first stage of a bigger C$25m ($16m) project including a resort, golf course and heritage centre.

Investment in British Columbia has often been blocked by Indian land claims. But a new generation of native leaders is scornful of government handouts and impatient with politics. “I'm not a politician, I'm a worker,” says Clarence Louie, the Osoyoos' chief. “I'm not going to wait around for any land claims or treaty settlement to look after my people's basic needs—I'm going to do what I can today.” The Osoyoos still get federal help (including C$2.8m toward the winery). But over the past ten years, they have generated more revenue from their own businesses (in tourism, recreation, agriculture, forestry, retail and wine) than they have received in federal transfers.

Canada's aboriginal population is growing more than twice as fast as the national average; more than half of Indians are under 25. Without more jobs, big trouble looms. Hence the turn to private initiative: Canada now has more than 20,000 Indian businesses. They are as varied as the economy itself: they encompass sawmills, casinos, construction, fashion, advertising, airlines, oil and gas, and computer services. Banks have taken notice, and are starting to offer finance.

Even the federal government's Indian-affairs department, rarely a force for progress, is starting to help. In recent years, it has set up agencies to help natives acquire venture capital and management skills. Early next year, the department will present parliamentary bills to end the restrictive sway of the Indian Act of 1876. The bills would enable native groups to run their own governments, provided these are open and accountable, and to manage their own financial affairs, including raising private capital for infrastructure and business ventures.

Many ordinary Canadian Indians backed these changes in a consultation process. Not so their political leaders. The Assembly of First Nations, which claims to speak for all natives, opposes the changes, which it sees as dictated by outsiders. Matthew Coon Come, the assembly's chief, rejects the bill as “opening the door to conflict”. Such resistance is odd, since native peoples have long demanded self-government and economic self-reliance. Perhaps they find the current paternalistic regime just too comfortable.

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Human rights in Chile

Out in the cold

Oct 17th 2002 | SANTIAGO
From The Economist print edition

An air-force chief crashes—and nobody provides a parachute

Get article background

THE impunity enjoyed by Chile's soldiers since the end of General Augusto Pinochet's dictatorship in 1990 has taken another dent. Last weekend, the country's air-force chief, General Patricio Rios, resigned over his poor handling of a government-brokered effort to locate the bodies of the dictatorship's missing victims. The affair may even help Chile's democratic rulers to gain control over the still-powerful military.

In June 2000, after a year of talks between military officers and human-rights lawyers, the armed forces agreed to hand over what information they had on some 1,200 people who “disappeared” under the dictatorship. That turned out to be not much, apart from an admission that 130 bodies were dumped at sea. Only a handful of bodies have since been recovered.

Last month, a newspaper revealed one reason for this. The air force's man in charge of compiling the information, General Patricio Campos, had a skeleton in his own closet. His wife had previously been tried for her role in a military death-squad (though she benefited from an amnesty law). General Campos has since admitted destroying information, and has been charged with obstructing the course of justice. General Rios, who chose General Campos for the job, could now face similar charges.

Under Chile's constitution—inherited from the dictatorship—President Ricardo Lagos lacks the power to sack military commanders. In a similar incident, in the mid-1990s, a chief of police successfully defied a presidential request for his resignation. So why did General Rios go?

The answer goes back to General Pinochet's arrest in London in 1998, argues Raul Sohr, a military analyst. To get him home, the armed forces had to accept that he could be tried by local courts (which eventually found him unfit to stand trial). So they can hardly oppose the cases against the air-force generals.

The army and navy have notably failed to back General Rios. Nor can he expect much help from the right-wing opposition. With its eyes on a presidential election in 2005, which it reckons it can win, it has no intention of alienating centre voters by supporting unpopular military causes. The incident may also help Mr Lagos's proposals for constitutional reform. These would reinstate the president's power to fire military commanders. For the first time since General Pinochet retired, Chileans can see why reform would be useful, says Marta Lagos, who heads the local office of MORI, an opinion-research firm (and who is unrelated to the president).

None of this is much help to the families of General Pinochet's victims. The government does not think that many more bodies will be found, but does hope for more information. That looks unlikely—unless the other armed services are also concealing information which someone decides to leak.

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Pakistan's election

Oh, what a lovely ally

Oct 17th 2002 | LAHORE
From The Economist print edition

Getty

An anti-American grouping makes important gains that are likely to embarrass President Musharraf

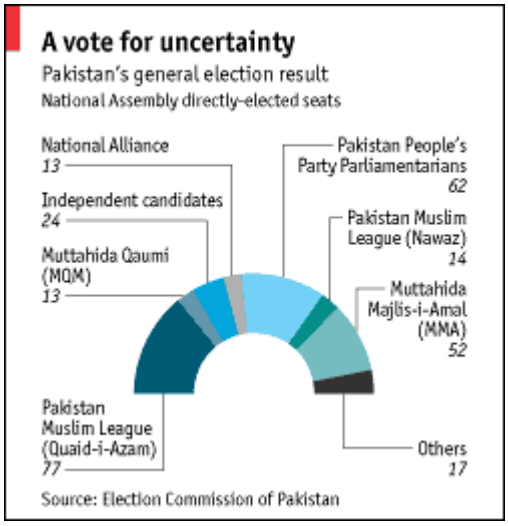
Get article background

“AMERICANS are the killers, the butchers, the murderers,” observes the mild mannered but plain speaking secretary-general of Pakistan's Jamaat-i-Islami party, Syed Munawar Hassan. The views of Mr Hassan and his party are not new. Like much of the Muslim world they are convinced that the United States and Israel have formed a tag team for the purpose of oppressing Muslims, a belief fanned into fury by the American bombing of Afghanistan, Israel's assaults on Palestinians and now the threat of war against Iraq.

Until now, such views could be treated as dissent, blasting Pakistan's pro-western policies without injuring them. Pakistan has been among the most valuable members of the American-led coalition against terrorism. Last week's general election may have changed that. The MMA grouping of religious parties, including Jamaat-i-Islami, stormed from the fringes of Pakistani politics into the centre, positioning themselves to govern two of Pakistan's four provinces and winning more seats in the national parliament than they have ever done. There is a chance that this group will be part of the coalition in charge of the central government.

Opposition to Pakistan's anti-terrorist alliance with the United States was the centrepiece of their campaign and will be their top priority in government, says Mr Hassan. The two provinces they look set to govern, North West Frontier Province and Balochistan, blur into Afghanistan. They are prime hunting grounds for refugee members of al-Qaeda, including, perhaps, Osama bin Laden. George Bush and Pakistan's president, Pervez Musharraf, must now be wondering what the religious parties can do to sabotage the hunt. They are not the only ones in shock. The days of freedom of expression in parliament are behind us, laments Aitzaz Ahsan, a leader of the centrist Pakistan People's Party. He recalls that in 1999 a handful of fundamentalist senators so intimidated their colleagues that only four voted for a resolution condemning honour killings of women who had eloped. Will tradition now smother modernity?

India, Pakistan's perennial enemy, is also worried. Its foreign minister, Yashwant Sinha, called the gains of the religious parties a bad signal. How much closer will fundamentalists get to controlling Pakistan's arsenal of nuclear weapons? The rise of the religious parties is the sum of some fears, not all of them. It brings an illiberal, anti-American element to the centre of Pakistan's political arena, which cannot but complicate the war on terrorism. General Musharraf, who tried, though not very consistently, to curb the influence of religion in public life in the three years since seizing power in a coup, will probably stop trying.



Concessions to India over the disputed state of Kashmir, never imminent, are even less likely. But there is little danger of Pakistan becoming a rogue Islamist state, an Iraq with a hankering for martyrdom. Some of the religious parties are pro-Taliban, but are more worldly and pragmatic than their defeated Afghan brothers. Access to political power will make them more so. They must contend with many other forces, including rivals in the fragmented parliament, the armed forces, which can veto almost anything politicians do, pressures from the United States and divisions within their own ranks. Pakistan is in for a period of uncertainty, perhaps even instability, but not revolution.

The elections knocked Pakistan askew. The idea had been to restore democracy after three years of military rule without bringing back the habitual sins of corruption, political vendettas, masochistic economic policies and clashes between civilian and military authorities, which often ended with the army taking over. To this end, General Musharraf first secured his own position as president by holding a referendum in April, which almost no one but he regards as legitimate. He then amended the constitution to give the president the power to dismiss parliament and to give the armed forces a permanent role in government through a National Security Council, headed by the president and including the top generals and elected officials. Finally, he tried to engineer the election so that the parliament it produced would acquiesce in all of this.

Criminal proceedings against Pakistan's two pre-eminent politicians, Benazir Bhutto and Nawaz Sharif, both former prime ministers, kept them out of the country. A split was arranged in Mr Sharif's Pakistan Muslim League; PML(Q), the bit friendly to General Musharraf, got extra help from the administration and won more seats than any other party. The election had serious flaws, said observers from the European Union. Not serious enough, though, to deliver a comfortable result for General Musharraf. The religious parties were supposed to do well (a decent showing would make the general look all the more indispensable to the West as a bulwark against extremism), but not too well. As things turned out, the Muttahida Majlis-i-Amal (MMA), the six-party religious alliance, won enough seats in parliament to deny the general's allies, PML(Q) plus assorted others, a reliable majority.

General Musharraf's other potential partner is the People's Party of Miss Bhutto, which agrees with him about fighting terrorism but, like the MMA, rejects the constitutional innovations that place him above parliament. He seems to face a choice between a party with a hostile ideology and one that is merely hostile to his ambitions. Just what will emerge from the parliamentary scrum is uncertain. The price the People's Party will set for joining the government, which may include dropping cases against Miss Bhutto and her husband, who is in jail, may be too high for General Musharraf to meet. Other coalitions are quite possible. A friends-of-Pervez government, including everyone but the MMA, the People's Party and Mr Sharif's faction of the Muslim League, might eke out a majority, though it would be too slender to last.

The current parliament, however, is unlikely to deliver stable government. Avowed foes of military rule have about half the seats. Even seemingly compliant civilian prime ministers have a way of turning on the generals once they sniff power. The current political line-up seems doomed to constant bickering over

position and policy, which may end with the president dismissing parliament or even with the politicians getting rid of the president. None of this would be new for Pakistan. What is new is that the religious right will have a big say in what happens.

The official line, from the government, headed by General Musharraf until he gives way to a prime minister, from the religious parties themselves and from potential coalition partners, is that the MMA will use power responsibly. It is not fundamentalist or militant, merely religious, says Pakistan's information minister. Some Pakistanis compare it to the Bharatiya Janata Party, the Hindu-nationalist party that rules India. The MMA downplays its radicalism, eager to be seen as a savvy player in the give and take of parliamentary politics. Even on its top priority, ridding Pakistan of American terrorist-hunters, the party sounds reasonable. It's a process, says Mr Hassan of Jamaat-i-Islami, not a switch button.

Parliamentary polish does not quite obscure the MMA's rough pedigree. Some of its constituent parties have a soft spot for the Taliban. One leader said that if the United States molested Mr bin Laden Americans in Pakistan would be attacked. Largely non-violent themselves, their advocacy of *jihad* has underwritten violence in Afghanistan, against Indian rule in Kashmir and even against other Islamic sects within Pakistan. In their commingling of violence and respectability they are typical of Pakistani institutions, including the army. Fazlur Rahman, issuer of the threat to kill Americans, heads the most powerful faction of the Jamiatul Ulema-i-Islam (JUI). Its *madrassas* (religious schools) educated the Taliban and supplied legions for its army. Its fierce creed, a puritanical brand of Sunni Islam, developed during the 19th century in the Indian town of Deoband, spawned even fiercer groups.

Sipah-i-Sahaba, a Punjab-based group started by former JUI men in 1985, has a record of killing Shia Muslims. It spun off an even more violent group, called Lashkar-i-Jhangvi, which is suspected of involvement in recent attacks on westerners and foreigners. Sipah-i-Sahaba is banned, and too disreputable for the MMA, but its leader, Azam Tariq, won a parliamentary seat in the southern Punjabi city of Jhang, boasting in a campaign brochure of loving the great soldier, Osama bin Laden. Mr Rahman is more politician than warrior. He was chairman of the foreign-affairs committee of parliament and an ally of Miss Bhutto, and has been named by his party as a candidate for prime minister.

His nickname, Maulana Diesel, testifies to a reputation for commercial acumen, which some suggest can be exploited in the cause of moderation. Like many stalwarts of the religious right, he is thought to be partly beholden to the armed forces, which, through its Inter Services Intelligence agency (ISI), has used religious parties for tasks as diverse as promoting Pakistani influence in Afghanistan, fighting Indian rule in Kashmir and clipping the wings of political parties at home.

Jamaat-i-Islami, the driving force behind the MMA, has had nothing to do with the narrow ideologies that spawn violence among Islamic sects; though it was a pioneer of promoting *jihad* in Afghanistan and in Indian-administered Kashmir. Qazi Hussain Ahmad, its leader, is more moderate than Mr Rahman, but perhaps less yielding. He is generally considered the MMA's weightiest leader.

Its other constituents make strange bedfellows. Shias and Barelvis, an easier-going sort of Muslim, have both been victims of savage Deobandi attacks and answered in kind. Yet they have shown up in the MMA. The fusion of these and other groups is something of a miracle, brought about, some say, by the army, which wanted a counterweight to the mainstream political parties besides PML(Q). It betokens moderation. Or maybe, its adversaries hope, an eventual falling out. Their rising stake in democratic politics could tame them further.

This is what General Musharraf counts on when he declares that Pakistan will remain a key member of the coalition against terror. If the United States attacks Iraq, the MMA can express Pakistan's rage from the podium, making it less likely that people will do so with guns. Despite the brave face some Pakistanis are putting on it, the MMA's success has put it in a position to slow down, if not derail, the initiatives that have made General Musharraf a popular figure in Washington.

By just how much depends on the outcome of the multi-sided tussle now taking place in Islamabad, the capital. Fighting al-Qaeda is mainly the job of the central government. The brunt is borne by such agencies as the ISI, by the army and by centrally run militias such as the Frontier Constabulary. Some 60,000 Pakistani troops and a handful of Americans are ranged along the border with Afghanistan, most in the federally administered tribal areas of North West Frontier Province, which are governed by the centre to the extent they are governed at all. If the MMA tries to undermine the fight against terrorism, the government has hinted that General Musharraf's National Security Council will block it. One message this sends out is that Americans ought to love the council, even though most Pakistani parties want to dismantle it. But the MMA can make trouble. Even if it sits in opposition, the MMA chief ministers of the

North West Frontier Province and Balochistan will occupy two seats on the 13-member council. It could get more, through such offices as the speakership of parliament and the chairmanship of the Senate.

Most MPs from the tribal areas are MMA men who may, some analysts worry, provide havens for foes of Afghanistan's American-backed government. In Quetta, the capital of Balochistan, newspapers report that a dozen local Taliban were freed from the district jail on instructions from newly elected MMA representatives. This could be a taste of sabotage to come.

And what of those nukes? The prime minister will head the National Command Authority but de facto control of the weapons rests with the armed forces, says Hasan Askari Rizvi, an expert on the Pakistani military. The army will not countenance an extremist as prime minister; if he rashly ordered deployment of nuclear weapons, says Mr Rizvi, the military would disobey.

If the MMA's anti-American agenda is blocked, its domestic wishlist may become more important. It has called for the implementation of *sharia*, Islamic law, which it says can be done within the framework of the revived constitution. The party wants to banish interest from bank lending. Its aversion extends to the financial-aid programmes within Pakistan that are underwritten by the IMF and World Bank. Whether the MMA sits in government or opposition, it is hard to see a revival of a programme to modernise *madrassas*, which General Musharraf had already put on a slow track. In the North West Frontier Province and Balochistan state schools may come to resemble *madrassas* rather than the other way around. Pakistani liberals now fear a chilling effect that will close minds, hinder reasonable expression and make women timid.

Prelude or interlude? Those who fret about fundamentalists taking over used to be reassured by the religious parties' consistent failure to win more than a few seats in elections. That comfort is no longer available, but that does not mean that Pakistan is succumbing to fundamentalism. The MMA's success arises in part from a fleeting alignment of circumstances: the hobbling of the mainstream parties, the Afghan war and the fragile alliance itself. It won a tenth of the popular vote, not much more than religious parties had won in previous elections. The difference was that this time they pooled votes rather than splitting them.

The vote for the MMA is not a vote for beards, burqas, and *jihad*, wrote one columnist, but rather a vote against imperialism and indignity. And against political fat-cats, some of whom shifted from the mainstream parties to General Musharraf's PML(Q). The new affection could be strengthened by war in Iraq, or weakened by incompetent government, which would not be surprising with so many newcomers in the assemblies. Blacking out cable stations could alienate people. People love to see Indian movies, even in the villages, says Haji Muhammad Adeel, a candidate whose pro-American party was decimated by the MMA. After one or two years will everything return to normal? Not quite. General Musharraf has had three years to set Pakistan firmly on the road to modernisation. The elections confirm that he has failed.

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Kashmir

A winter thaw

Oct 17th 2002
From The Economist print edition

India withdraws troops

Get article background

INDIA is to carry out a limited withdrawal of its troops along its border with Pakistan. It will be the first important easing of tension between the two nuclear powers for almost a year.

Something like 1m men have been facing each other across the border in the latest confrontation over Kashmir, the disputed state that has been the trigger for two of the three wars between India and Pakistan. The proposal for an Indian withdrawal came from a security advisory group chaired by the prime minister, Atal Behari Vajpayee. It was then approved by the cabinet's security committee. “Don't blow it up,” a cautious member of the advisory group told reporters. “There's still a long way to go.”

Apart from gaining kudos internationally, this may be a good time strategically for India to move back some of its troops. With the approach of winter the Himalayan passes between the two countries will become iced up, making it more difficult for Pakistan-supported militants to cross into Indian Kashmir. A withdrawal could soon be followed by a resumption of diplomatic ties, or so optimists believe.

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China and the United States

One hour with Mr Bush

Oct 17th 2002 | BEIJING
From The Economist print edition

What China's leader will tell the Americans

Get article background

NEXT week Jiang Zemin will leave behind a simmering power struggle at home to pay a farewell trip to the United States as China's president. Despite an array of misgivings in China about American power and the foreign policy of George Bush, Mr Jiang is bending over backwards to ensure the trip goes well. Mr Jiang wants to be remembered as the Chinese leader who got America and China to treat each other a bit more normally.

Mr Jiang has been battling with his rivals over leadership changes to be unveiled after a five-yearly Communist Party congress due to begin on November 8th. Although he is constitutionally obliged to relinquish the presidency next March, he may still cling to his position as military chief and possibly even as head of the party as well. Factional manoeuvrings may be at least partially responsible for recent problems involving prominent personalities with links to senior politicians. These include the disappearance of the head of China's State Power Corporation, Gao Yan (a protégé of Li Peng), who is said to be under investigation for alleged economic crimes, and the sentencing last week of another state-sector businessman, Zhu Xiaohua (a protégé of Zhu Rongji), to 15 years in prison for corruption.

The delay of the party congress until November (it was at first expected to convene in September) may have been partly engineered to allow Mr Jiang to visit America with his authority still undiluted. The trip is particularly important to Mr Jiang because he regards the improvement in Chinese-American ties over the 13 years since he was appointed party chief as one of his great achievements. When he took office, China was being shunned by the United States and some other countries because of the violent suppression of the Tiananmen Square protests a few days earlier. Now Mr Jiang is preparing to be received (albeit only for lunch and an hour of talks) at Mr Bush's ranch at Crawford, Texas, quite an honour in China's eyes.

There are clearly strong concerns in China about what is seen as American unilateralism. There are also worries about the strengthening of American security links with countries on China's periphery, among them those of Central Asia, and with Taiwan. But China's misgivings are less strongly voiced than they were at the time of NATO's action in Yugoslavia in 1999, when the Chinese embassy in Belgrade was bombed, accidentally. At that time, many Chinese scholars expressed fears that intervention in Yugoslavia might pave the way for similar intervention one day in affairs seen by China as its own internal business, such as separatist campaigns in Tibet, Xinjiang and Taiwan. Now China's anxiety appears to have abated. There is little obvious sign of worry that an American attack against Iraq might set a precedent for action against China.

Mr Jiang is certain to raise China's concerns about American arms sales to Taiwan, and call for an end to restrictions on the launch of American commercial satellites by China's rockets and on military-to-military contacts between the two countries. There are still disagreements over whether an accord on the restriction of missile-technology exports by China reached between the two countries in 2000 should apply to contracts already signed by China at that time.

But the four-day visit, which begins on October 22nd and also takes Mr Jiang to Chicago and Houston, before he heads to Mexico for a summit of Asia-Pacific leaders, will be far more about symbolism and stressing the two countries' new-found common cause, the campaign against terrorism. In August, the United States deputy secretary of state, Richard Armitage, agreed to place a little-known organisation campaigning for independence for Xinjiang on America's list of foreign terrorist groups. A western diplomat reckons that “some bright American” suggested this as a reward for China's support. For Mr

Jiang, securing such gestures is a sign that his diplomacy has paid off.

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Kazakhstan

Ambitions of the middle class

Oct 17th 2002 | ALMATY
From The Economist print edition

A new political force could trouble the president

AFTER months of cracking down on political dissent and independent-minded newspapers, the Kazakhstani authorities appeared by late last year to have finally gained the upper hand. Two leading opposition figures were sentenced to several years in jail, a restrictive law on political parties was passed by parliament, and a well-known journalist was severely beaten. Although the various opposition groups were shaken by these events, they did not crumble. They now seem to have a second wind.

An opposition party, Ak Zhol (White Path), was believed to be the target of a law that had raised the minimum membership requirement for a party from 3,000 to 50,000 members, seemingly an impossible target. It has now defied the odds by managing to come up with 65,000 members and to be the first party to apply for re-registration.

Ak Zhol is relatively moderate in outlook, with a focus on economic reforms, and appeals to Kazakhstan's growing middle class and new business elite. Its leaders, two former senior government officials and a successful businessman, continue to believe that the country's autocratic system can be changed through reforms. President Nursultan Nazarbaev is believed to hold a personal grudge against them for not toeing the government line.

It might be worthwhile for him to keep an open mind. Although Ak Zhol's membership drive was directed at Kazakhstan's multi-ethnic population of 16.7m as a whole (of which barely half are Kazakhs), the overwhelming majority of the delegates at the party's congress last weekend were Kazakhs, not known for their political activism. This could ultimately be bad news for the authorities. Uraz Jandosov, Ak Zhol co-chairman and a former deputy prime minister, says that Kazakhs are becoming aware that it is up to them to do something to reform the system or be stuck with what they have.

By contrast, the demands made by the Republican People's Party, set up by another former prime minister, Akezhan Kazhegeldin, who has lived in exile for the past four years, are more radical. Mr Kazhegeldin has proposed to merge the party with another radical group, Democratic Choice, with the aim of working for “the removal of the shameful regime of personal authority and pervasive corruption” of Mr Nazarbaev.

The Ak Zhol leaders were among the co-founders of Democratic Choice. Their ideas and, not least, their financial clout made them so popular that they were joined by many parties and organisations. Unnerved, the authorities began persecuting the opposition.

Kazakhstan's economy is in better shape than those in the other ex-Soviet republics of Central Asia, and the country now also has a substantial middle class (by local standards). It is they who have grown dissatisfied with the lack of further growth opportunities—due in part, it is believed, to some sectors of the economy being controlled by members of the president's family. It would not the first time a middle class produced important political change.

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Iraq

Waiting, with bravado and anxiety

Oct 17th 2002 | BAGHDAD
From The Economist print edition

Reuters

Much as they loathe their circumstances, Iraqis' fear of what comes next is greater

Get article background

"BUSH, Bush, listen well, we love Saddam Hussein." This was the chant, in rhyming Arabic, of 100 white-robed tribesmen at a dusty polling station near the Shia Muslim holy city of Karbala. Some had pricked their fingers to stamp Yes on the flimsy ballots with their own blood. Others had slaughtered sheep in celebration. With such scenes repeated across Iraq, this week's referendum to extend Mr Hussein's rule produced a 100% yes vote, from a purported 100% turnout.

To its own people, the beleaguered regime was brazening its capacity to dramatise a show of national solidarity before the world's press. To outsiders, it was meant as a pointed reminder that foreign invaders will be met not just by an army, but by 25m hostile citizens.

In a society governed by fear, ruined by war and sanctions, and fractured by clan, creed and ethnicity, the truth of such an assertion is hard to gauge. Thirty-four years of rule by the Baath Party, with Mr Hussein at the helm for 23 of them, have brought disaster, but also a wary equilibrium. Many detest their leader, though virtually none dare do so openly. Yet even opponents admire his defiance, and admit the effectiveness of his propaganda.

There is little doubt that America, not the regime, takes first place on most Iraqis' hate-list. "Assuming I were to say I don't like our president, I still believe many of his positions are just," said a Baghdad accountant-turned-taxi-driver. "Do Americans think what their Israeli friends do in Palestine is just? Do they think forcing me to look for fares, just so I can send my children to school wearing shoes, is just?"

Perceptions of American double standards translate into deep suspicion of American motives. They pretend they want to help us, goes a common refrain, but what they really want is to help Israel and get their hands on our oil. Even pro-American diplomats in Baghdad lament that the Bush administration has failed to deliver any message to assuage Iraqi fears on this score.

Judging from the tenor of slogans festooned across the country for the referendum, many Iraqis saw it as an occasion to vote against George Bush rather than for Mr Hussein. The hostility to America, echoed by a range of Iraqis from a successful Baghdad sculptor to a village share-cropper, is

Many Iraqis apparently saw the referendum

understandable. Relentlessly repeated footage of Israeli brutality, often juxtaposed with images of “collateral damage” from American bombing in Afghanistan and in Iraq's “no-fly zones”, fill the state-controlled airwaves.

as an occasion to vote against George Bush rather than for Mr Hussein

Meanwhile, 12 years of sanctions have given every household a personal grievance against those seen as responsible for imposing them. Baghdad, once a city of broad avenues, villas and European-standard public housing, now looks more like Kinshasa, Congo's sad capital, complete with lakes of sewage, piles of trash, beggars and straggling flea markets.

Since 1990, Iraq's mortality rate for children has risen ten times faster than Rwanda's, even throwing in those children killed in the 1994 Rwandan genocide. Most die from the effects of malnutrition and tainted water. Despite repairs to power generation, which has brought output back to 50% of pre-war levels, most towns suffer daily electricity cuts and many villages get none at all. This is a dire problem when summer temperatures soar to 50°C (122°F) in the shade.

While pushing more than 1m Iraqis to emigrate, sanctions have increased the reliance on the state of those left behind. The UN's oil-for-food programme, started in 1996, does now provide everybody with basic monthly rations. Essential goods, including medicines, are more widely available than five years ago. Yet the average family still spends 72% of its cash income on food. Meanwhile, UN restrictions remain so stringent that one aid agency was recently denied permission to import door handles for the hospitals it has renovated.

A minefield

Yet, much as Iraqis loathe their circumstances, the fear of change could be even stronger, especially of change brought by yet another war. Cruelly oppressive though it may be, the state does provide security. “The whole society is a minefield,” said an aid worker who has travelled widely across the country. “Lift the pressure and it could really explode.”

The Kurds, who have secured relative freedom under UN protection in their northern homeland, are wary of reintegrating with the Arab majority. The small Christian minority, fairly prosperous but decimated by emigration, worries that without the protection of the secular Baathists, the Muslim religious revival which has swept the country could turn against them. Sunni Muslims, who are over-represented in government but vastly outnumbered by the Shia, fear losing their traditional dominance. Loyalists in the Baath Party and in dozens of Arab tribes—including Shia as well as Sunni clans—fear retribution. And the small core of henchmen clustered around Mr Hussein, mostly from his own clan or home region of Tikrit, fear extermination.

The tools for a bloodbath are readily to hand. Aside from a thriving black market in weapons, the government is said to have distributed arms to party cadres, retired officers and selected tribal leaders. Just as dangerously, poverty and the enfeebled infrastructure make Iraq far more vulnerable to epidemics, and possibly to widespread hunger, than it was in 1990.

Tuberculosis, cholera and typhoid, unknown before 1990, are already prevalent. In a war, even such diseases as influenza could cause fatalities. Aid officials lament that not even precautions such as stocking blood banks have been taken to avert wartime health risks.

Still, the government is making some quiet preparations. Parts of the telecommunications infrastructure have been dismantled to spare them from bombs. Masterpieces from the Iraq Museum are being kept in storage. Food rations are now being distributed in two-month instalments—though some say that is because this year's bumper grain harvest has swollen stocks after two years of drought.

Largely, however, the regime's war preparations take the form of mounting propaganda. “Every shepherd will be a fighter, every village a killing cell,” swears Ezzat Ibrahim, a senior official, in announcing the referendum results.

And if the attack comes?

Despite the pervasive public anxiety and the government's bravado, some foreign analysts reckon that

most Iraqis would acquiesce in “regime change”, even one instigated from outside. Foreign observers in Baghdad believe it is a question of how quickly and cleanly the change is effected. Too long a campaign, with too much hardship inflicted on civilians, would provoke a backlash, said one aid official.

Others are more categorical. “There would be dancing in the streets if the regime fell,” said a European diplomat. “Half would be dancing because they are happy, the other half because that's what they are used to doing for whoever rules them.”

Maybe, but it is hard to find even a dissident Iraqi who is so sanguine. “We'll happily watch the American bullets fly over our heads at first,” said one disgruntled intellectual. “But after a two-year honeymoon we'll be shooting at them. Iraqis will never, ever be ruled by foreigners.”

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Israel and human rights

When good men turn racist

Oct 17th 2002 | JERUSALEM
From The Economist print edition

What the intifada may be doing to Israel's rule of law

Get article background

AP

Will Bishara be thrown out of the Knesset?

ALMOST 20% of Israeli citizens are Arabs and many of them say they feel uncomfortable these days when they go about their business in mainly Jewish towns or travel on buses or trains. People watch them apprehensively, with hostility. On the beach at Hadera recently, Arab families picnicking with their children were harassed by Jewish louts. One father, a lecturer in medicine at Tel Aviv University, was roughed up, his arm broken.

In the West Bank and Gaza, Palestinian civilians are killed or injured almost daily by loose Israeli gunfire. At the myriad road-blocks, Palestinians are subjected to humiliation almost as a matter of course. Yet the soldiers rarely face criminal charges, or even disciplinary proceedings. And settler vigilantes who randomly smash Palestinian property in retaliation for terror attacks are hardly ever brought to justice.

So is Israel's justly vaunted rule of law crumbling under the pressure of the *intifada*, now in its third year? The machinery of democratic society still works. Once the press got on to the Hadera affair, the lethargic local police force was forced to mount a credible inquiry. On the West Bank, too, media reports of looting and vandalism by soldiers have resulted in a few courtsmartial and prison terms. And the army is calling up lawyers for reserve duty, posting them at road-blocks to monitor the soldiers and prevent wanton cruelty.

Nothing in the structure of the rule of law has irretrievably collapsed. The danger is of erosion—of institutions but, more importantly, of the democratic ethic. Speech is free, but 43 professors tried to prevent Yossi Beilin, a notable peacenik, from speaking in April to the teaching staff of Ben-Gurion University at Beersheba. The media are feisty, but there was a move from the right to drop CNN from the cable package because of its “hostile” reporting.

The “green line” (Israel's border before the 1967 war) demarcates two discrete rules of law. In the Palestinian territories, now largely reoccupied by the Israeli army, the precepts of military rule apply. But even these are being infringed during this *intifada* as never before, says Aeyal Gross, a lecturer in international law.

Of the more than 1,800 Palestinians who have been killed since September 2000, many were non-combatants or unarmed stone-throwers. People are deprived of their freedom of movement by Israeli sieges and closures, and for many this has meant a denial of their right to medical care. Roadside orchards and olive groves are flattened after shooting incidents or to prevent such incidents, and peaceable families are deprived of their rights to their property and livelihood.

The army has increasingly resorted to the controversial measure of house demolition to punish and deter, often turfing the entire extended families of individual terrorists on to the street. Human-rights lawyers argue that the punishment is collective and therefore forbidden, and the deterrence arbitrary. In August, the High Court of Justice ruled that if soldiers' lives are endangered or “the success of the operation prejudiced”, the homeowners' right to a hearing can be dispensed with.

The court was less compliant, though, when the army announced in September that it would deport from

the West Bank to Gaza family members of suicide bombers, in the hope of deterring other would-be bombers. The justices strictly circumscribed this measure to relatives proved to have been privy to the bombers' preparations. Since such people would normally be arrested as accessories, the ruling, in effect, foreclosed the policy.

Fear, and its effect

But it highlighted the problem, inherent in any legal system, of deterring an assailant who is determined to die. The suicide scourge that has taken more than 600 Israeli lives, most of them civilian, creates cogent justification, or at least mitigation, in the minds of most Israelis, for many of the excesses committed in the name of security. “I have always prided myself on being a lover of all people,” an American Jewish immigrant, Nachum Kligman, wrote to a newspaper. He told how he had shamefacedly left a café with his family when an Arab-looking man sat down nearby and, sweating, repeatedly looked at his watch. “I act this way because...I don't want to see my family blown up on their way to a park. If that makes me a racist, then so be it. I am a racist.”

Among the 1.2m Israeli Arabs, whose condition is the ultimate test of Israel's democratic credentials, there is much muttered alarm and one central beacon of hope. A measure recently made law would disqualify from the Knesset any party or individual member supporting “armed struggle waged by an enemy state or terror organisation”. This comes on top of existing legislation barring parties that “oppose Israel's existence as a Jewish and democratic state”.

One Arab political leader likely to be blocked at the next election, in 2003, is Azmi Bishara, leader of the National Democratic Alliance. He is currently standing trial for “voicing solidarity with a terrorist organisation” because of a speech he made at a political rally in Syria in June 2001. His disqualification would be seen by the entire Israeli Arab community as an act of collective delegitimation. The reaction, some observers say, could be a mass Arab boycott of the election.

Even more disturbing for many Arabs is a policy introduced this summer by the Ministry of Interior to revoke the citizenship of Israeli Arabs charged with involvement in terror. Thus far, a 24-year-old man serving a life term for abetting a suicide bomber has been stripped of his citizenship and two others, one in jail in Israel and the other living in Lebanon, have been notified that they are to lose theirs. The interior minister's power to do this to people whose actions “contravene their allegiance to the state” has been on the statute book for decades. But it has never been invoked. Now it is being used, but only against Arabs.

Another rarely used power, dating back to the British Mandate, enables the interior minister to prevent a citizen from travelling abroad. The minister is using it against Sheikh Ra'ed Salah, the leader of the northern (and more extreme) branch of the Israeli Islamic Movement whose ties to Hamas, the militant Islamist party in the Palestinian territories, are too close for the government's liking. They are too close for the liking of many secular Israeli Arabs too. But, as in the case of Mr Bishara, the travel ban imposed on the sheikh is seen as a blow at the entire community.

The one possible ray of light is the Or Commission, a judicial commission of inquiry into the deaths of 13 Israeli Arabs in clashes with the police during the first traumatic fortnight of the *intifada*. Chaired by Theodore Or, a Supreme Court justice, the three-man panel has been meticulously taking evidence in emotionally fraught public hearings. Soon it will deliver its findings. “If it just says that the police were too trigger-happy,” says a seasoned observer, “that will mean everything to the Arabs. They will feel they have a place in Israel after all.”

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Muslim opinion polls

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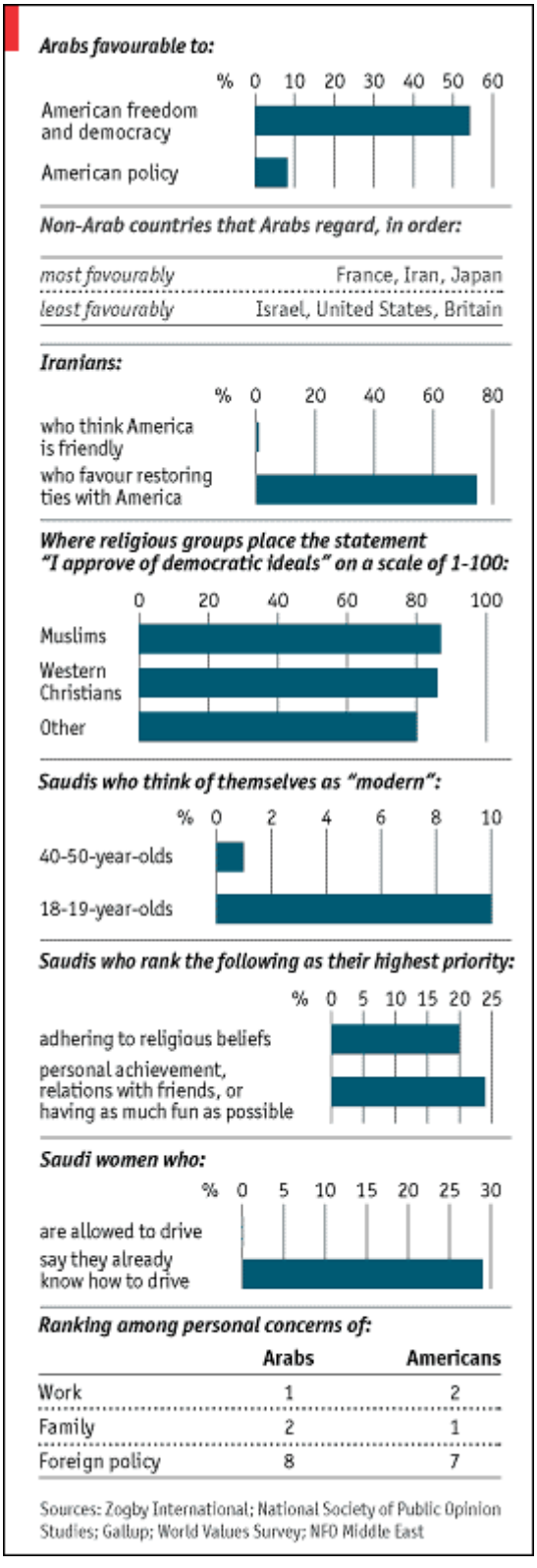
For the past year Americans have asked why Muslims and Arabs hate them. Now they have the most American of tools, opinion polls, to provide answers. The results of half a dozen surveys show, broadly, that America is not hated for itself, but rather widely mistrusted because of its policies in the region; that there is no clash of civilisations between Islam and the West since both share similar values and concerns; that Muslims would like to have better relations with America; and that even the most conservative Muslim societies are changing fast. Here are some highlights:



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Tension in Uganda

War, and rumours of war

Oct 17th 2002 | KAMPALA
From The Economist print edition

A gathering storm threatens Uganda, and the president's response is crude

EPA

Train and wait, says Besigye

A GUERRILLA army won't give in; a dissident dies during “interrogation”; an exiled politician says to prepare for armed rebellion. Scenes from Uganda's nightmare past? No, headlines in the most recent issues of the *Monitor*, Uganda's only independent daily newspaper and a bold voice, at least until October 10th, when two dozen police officers barged into the newsroom and shut the paper down.

The crackdown came as a shock. The relations between the government and the *Monitor*, its frequent critic, had always been icy. But tolerating it burnished Yoweri Museveni's credentials as a different kind of African leader—the avatar of a “new African renaissance,” as Bill Clinton put it when he visited Uganda in 1998.

Those renaissance days now seem long past. First, Mr Museveni embroiled the country in Congo's bloody civil war. Then came last year's bitterly disputed presidential election. Mr Museveni's opponent, Colonel Kizza Besigye, claimed that he had been robbed, and soon fled the country. His supporters say that, since then, they have been routinely harassed; one, a purported rebel, died in the custody of military intelligence, after a “blunt injury” to his head. Many ordinary Ugandans, too, are unhappy, asking how long Mr Museveni plans to stick around, and why he will not lift his ban on political parties.

Worse for Mr Museveni are two wars, one real, one rumoured. The Lord's Resistance Army (LRA), a brutal band of guerrillas that has terrorised Uganda's north for 16 years, continues to bedevil the army. A six-month government offensive appears stalled. Now there are indications that Mr Besigye is preparing to launch a civil war of his own. Even the government's opponents take the threat seriously. “The president is reading the signs correctly,” said Norbert Mao, a member of parliament. “Only, he's responding crudely.”

The catalyst for the *Monitor* raid was its publication of a story alleging the LRA had shot down an army helicopter. The army denies this happened. The next evening, the police arrived. The reporter who wrote the story was arrested, along with two of his editors. They have been charged with publishing false news intended to aid the enemy, and face seven years in prison. For six days, the *Monitor*'s building was sealed. The police then reopened it, saying “We've got what we wanted”.

Mary Okurut, Mr Museveni's spokeswoman, said the government was punishing the newspaper for “playing around with the security of the country.” Others suspect the closure may have been in advance of a renewed, scorched-earth, attack on the LRA. But *Monitor* editors believe that the government's real aim was different: it wanted to unearth the paper's sources. It may well have presumed these sources to be dissatisfied elements within the army, perhaps Besigye loyalists.

Mr Besigye claims that he is not involved in any rebel activities—but still refuses to rule out the possibility of launching his own war. In late August, during a telephone appearance on a radio talk-show, he told his followers to “train and wait” for his call to arms.

Ugandan intelligence officials claim that Rwanda is behind Mr Besigye. Uganda and Rwanda have been engaged in a shadow war ever since 1999 when their armies waged a battle over Kisangani, a Congolese city. Each accuses the other of fomenting armed mischief. Ugandan officials say that a pair of colonels

who defected to Rwanda last year are training an army to overthrow Mr Museveni and replace him with Mr Besigye. But they also claim that Mr Besigye is plotting an alliance with Joseph Kony, the LRA's dreadlocked, messianic leader.

In the worst case, the conflict could turn into all-out Rwandan-Ugandan war, just when the two countries seem to have extricated themselves from the Congo morass. British-mediated talks between Mr Museveni and his Rwandan counterpart, Paul Kagame, were scheduled for October 17th in London. These could ease the tension, and the threat from Mr Besigye may be defused. But Mr Museveni's critics point out that he himself took power in a guerrilla war, launched after a disputed election, and that Uganda has never had a peaceful transfer of power.

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South Africa's far right

They roar a bit

Oct 17th 2002 | LICHTENBURG
From The Economist print edition

But deluded right-wing conspirators are paper tigers

IS THE far right still a threat to South Africa? A decade ago it was worth fearing. A collection of 21 right-wing groups known as the Afrikaner Volksfront threatened widespread violence unless there were separate homelands for whites. The best-known far-right stalwart, Eugene Terre'Blanche, led his Afrikaner Resistance Movement into a neighbouring black homeland in 1993. Eight years of democracy have since brought calm, the few remaining right-wing parties are in parliament, and Mr Terre'Blanche is in prison.

Yet, in the past few months, the police claim to have foiled a series of right-wing terrorist plots and even a planned coup. In September the sleepy farming town of Lichtenburg awoke to bomb squads and hordes of journalists after a truck was found packed with guns, ammunition and explosives. It was, apparently, the property of anti-government fanatics who had stolen supplies from the army and were planning a guerrilla campaign.

A dozen men have been arrested this year for treasonous schemes, and will be put on trial soon. One lot was said to be scheming to blow up the Vaal dam, a reservoir south of Johannesburg. Others may have been planning to set off bombs made from gas canisters during the UN summit on development in Johannesburg.

Much of the plotting seems to be in the imagination of a few angry whites, mostly farmers who resent the end of apartheid. They have virtually no public support—even though 8% of the population is Afrikaner—and no serious ideas about how to seize power. Some of the defendants apparently expected support from the army, which may retain some far-right sympathisers, formerly known as the *verkrampte* faction. Others put their faith in disgruntled ex-soldiers.

White farmers in places like Lichtenburg are disturbed about the many murders of landowners, and talk about an ongoing war between themselves and squatters, land-invaders and crooks. They fear land-grabs, modelled on Zimbabwe. One resident, suggesting that there are strong anti-government attitudes in the Afrikaner heartland, remarked on the “hate running around, especially among Boers who are politically motivated.”

Even if the threats are largely fantasy, the government says it is worried about the far right. Last month, Nelson Mandela condemned the plotters for threatening democracy. One does not, after all, have to look far to find angry individuals causing disproportionate harm.

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South African languages

Tongue-tied

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From The Economist print edition

The imminent death of a rich African language

LANGUAGES abound in South Africa: it has 11 official ones, and dozens of unofficial. But the death on October 7th of Elsie Vaalbooi, aged about 100, saddened linguists. She was one of the last speakers of n|u, a click-based dialect of the once-nomadic San people. Only a handful of her ageing relatives can still use n|u, the last known example of !Ui, a family of San languages spoken across southern Africa by hunter-gatherers, possibly for the past 30,000 years. It is now, it seems, about to expire.

According to UNESCO, the UN's cultural body, half the world's 6,000 or so languages could die within a generation. Indigenous, nomadic groups, such as Australia's aborigines (with 400 languages) and southern Africa's San, have rich deposits of old languages. But they are vulnerable as traditional lifestyles die. Of an estimated 1,400 African tongues, 500 are in decline, half of them facing imminent extinction.

Mrs Vaalbooi had become a campaigner for the San tongues. “I want our language to come back. I want our water, our animals, our plants,” she said as South Africa's government returned 40,000 hectares (100,000 acres) to her Khomani community in 1999. Her activism was matched by historians who say that the study of long-isolated languages will reveal the origins of human speech.

Remarkably, !Ui and a cousin language in Botswana, !Xoo, have proved more complex than almost any other. Spoken languages usually employ just 20 sound units or phonemes. English-speakers have 55 of them, but !Ui-speakers use more than 140, says Nigel Crawhall of South Africa's San Institute.

Study of such a complex language should reveal more about hunter-gatherer cultures. But time is short. When Mrs Vaalbooi died last week, there was almost nobody left to say “!hoi ca”, goodbye, in her mother tongue.

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Germany's new government

The coalition labours and brings forth not very much

Oct 17th 2002 | BERLIN
From The Economist print edition

Gerhard Schröder's new programme of government promises nothing very much about anything—except a mistimed effort to cut the budget deficit

Get article background

ANYONE hoping for bold, wide-ranging reforms in Germany can expect to be disappointed. The eagerly awaited coalition agreement between the Social Democrats and their Green allies on government policy over the next four years goes little further than their vague election promises. Labour market reform? Well, as promised earlier, the government says it will implement the ideas of the Hartz commission in full; which, if it happens, is something, though not nearly as much as radicals think Germany needs. Other steps to job-creation? Er, um. Health-care reform? Oh yes, it's needed, but just what, after four years in office, Gerhard Schröder's friends cannot or at least do not say. And much else—or rather, not much else.

Except on public finance. Hans Eichel, the new-old finance minister, admitted this week that there is little prospect he can keep Germany's 2002 budget deficit within the European Union's 3% limit. The new government, due to be sworn in next week, has decided on a slight but perceptible shift in its economic priorities. Boosting the economy and creating jobs will now be given at least equal weight with the consolidation of the budget. Although the government says it remains committed to the EU's stability pact, it has postponed its goal of balancing its books until 2006.

There the good news from the finance ministry stops. The bad news is that Mr Eichel is planning a new package of economic measures, in an attempt to bring the 2003 deficit back below the 3% limit. This would raise tax revenue by *euro*6.9 billion (say, that figure in dollars) and new borrowing by *euro*2.6 billion next year—despite solemn election pledges to do neither of these. Mr Eichel plans also to cut spending by *euro*7.4 billion. Many economists see the overall effect of these measures as a lowering of next year's already feeble expected growth of 1.5% by as much as half.

To raise funds for flood relief in eastern Germany, the old government had already decided to postpone income tax cuts due to start next January 1st by a year, and to impose a one-off levy on corporate profits. To raise revenues without actually “raising taxes”, the new government will abolish various tax breaks, benefits and allowances, quite a different thing.

Companies will face new limits on their ability to set past losses against profits. Energy-intensive ones, which previously got a reduction in the “green” tax on fossil fuels and electricity, will now have to pay the

full rate. Tax benefits for home-buyers will be restricted to families with children. Private shareholders, now exempt from capital-gains tax if they hold their shares for more than a year, will no longer be so. Some goods and services now subject to a reduced value-added tax rate will have to bear the full 16% rate.

Though the new government appears to have rejected earlier ideas for a general increase in VAT, higher inheritance taxes or a reintroduced wealth tax, this has not diminished the wrath of business leaders or of the opposition. Mr Schröder will have a tough struggle turning his plans into law. The conservatives have already said they will fight his tax plans when they come before the opposition-controlled Bundesrat, the upper house of parliament.

The main spending cuts will fall on the federal Labour Office, which will see its government grant cut by *euro*4 billion a year. A further *euro*2.3 billion is due to be saved by subjecting long-term unemployment benefits to means-testing. Instead of continuing to receive 53-57% of their former wages indefinitely, those jobless who have a wage-earning spouse will have their benefits docked. Better-off Germans will also be asked to pay higher pension contributions. These are levied as a proportion of wages. By raising the ceiling up to which they are taken, the government hopes thereby to stabilise them at 19.3% of gross wages—less than they might have reached, but still up from today's 19.1%.

Say one thing, do another

Mr Schröder, having failed in his past promise to cut Germany's 4m jobless during his first four years, supposedly has made a reduction in unemployment the top priority of his second term. So the government says it wants to lower non-wage labour costs. That rise in pension contributions, small as it it is, will raise them. On top will come a rise in health contributions, they too levied equally on employer and employee. So how will costs be cut? The paper talks vaguely of the need for reform to check spiralling health costs. What reform? It does not say.

Mr Schröder has described his plans for the next four years as “ambitious and realistic”. They are neither.

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French defence policy

Rearming

Oct 17th 2002 | PARIS
From The Economist print edition

France is to raise its defence spending

EPA

On guard—in Afghanistan, actually

A FRENCH oil tanker attacked last week by suicidal terrorists off the coast of Yemen; 20,000 French citizens caught last month in the cross-fire of a would-be coup d'état in Côte d'Ivoire; 11 French naval contractors slaughtered by a terrorist bomb last May in Karachi. If a nation's first duty is to protect its citizens, France clearly has a job on its hands—especially when 1.5m of those citizens live in foreign lands.

That, says the government, is why it plans to spend *euro*14.64 billion (say, $14 billion) a year, on average, on military hardware for the next six years. A second aircraft-carrier will be ordered, to accompany the *Charles de Gaulle*, brand-new but with teething troubles (a propeller fell off during a proving cruise). There will be new spy satellites and reconnaissance drones; first deliveries of 50 of the planned Airbus A400M heavy-lift transport aircraft; an order for 34 anti-submarine helicopters. Add in hundreds of cruise missiles and dozens of fighter aircraft and France's armed forces—some 330,000-strong—will be well on their way to the goal set this year by President Jacques Chirac: to catch up with Britain's armed forces in terms of professionalism and equipment.

And do what? The government, in the five-year programme it is putting before parliament, says that “western military supremacy renders direct confrontation unlikely”; instead, there could be “asymmetrical threats, adopted by state or non-state players”—ie, attacks on France's water-supply, say, or its computer networks. And since the threats could come from forces based in “dysfunctional” states, “we might have to mount, most often in coalition, war operations outside our borders.” As in, for example, Afghanistan, where France has provided air, sea and intelligence support for the Americans.

Such thinking made a convenient backdrop to the visit to America this week of Michèle Alliot-Marie, France's first woman defence minister. So too given the increasing technology gap between America's forces and those of the backward Europeans, does the commitment to “reinforce the inter-operability of our armed forces with those of our partners and allies”.

This is a big change from the days when Gaullist France talked, however vacuously, of defence *tous azimuts*, against all imaginable enemies, the United States, by implication, included. But the Americans should not suppose France shares their own—or specifically George Bush's—view of the world in general and Iraq in particular. Before leaving for Washington, Mrs Alliot-Marie emphasised that the attack on the tanker was one thing and Iraq another. And Gaullist traditions die hard: the five-year programme stresses that France must protect its ability to act alone “should it be necessary” and “assume the role of lead nation” in any coalition.

A European coalition, presumably. France remains committed to the agreement reached at the European Union summit in Helsinki three years ago, that by next year the EU should be able to deploy within 60 days up to 60,000 men, with air and sea cover, and keep them deployed for at least a year. Just whose men? The French were impressed by a British initiative at St Malo in 1998 for more cross-Channel military co-operation. But they now feel Britain's ardour for a European force is cooling.

Yet Britain is very open to the idea of sending its forces abroad, and French military folk have great respect for those forces. This indeed was one thing that persuaded President Jacques Chirac in 1996 to

announce that France too would abolish compulsory military service—it ultimately ended late last year—and “professionalise” the armed forces. And the French see opportunities for collaboration in procurement. Perhaps Britain would like to share the design of France's second aircraft carrier, and maybe others to come?

That could happen, but only if the two countries can agree on what sort of aircraft it would carry. The British, with Harrier experience to go on, though the Harrier itself is near its end, fancy vertical take-off aircraft; the French, with an eye on their Rafale, would prefer a carrier with a catapult system. A compromise is possible; and shared design and components certainly should lead to economies of scale.

Still, spending must rise, and here Mrs Alliot-Marie might seem to face a problem. Professionalising the armed forces has cut personnel costs by a quarter over the past six years, but the new equipment will cost plenty: result, a 6.1% rise next year. Yet the European Commission is telling the government that its overall deficit is already too high. A problem easily solved, however: France has a long tradition of ignoring orders from Brussels, and the commission has no troops. After EU finance ministers met last week, the French one, Francis Mer, bluntly declared that defence was a priority, and that “we are still in a Europe where budgetary policy and political decisions are under national control.”

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Dutch politics

Try again

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The cabinet has collapsed

FEW thought it would last long, and it didn't. In mid-May, the Dutch voted out their old Labour-led government and elected, notably, a swarm of non-politicians from a populist front. But by then its maverick leader, Pim Fortuyn, had been murdered. Two traditional centre-right parties were ready for a coalition, but they could not just ignore the Fortuynists. Painfully, the Christian Democrats' Jan Peter Balkenende and his Liberal partners put together a cabinet giving them several ministries. On October 16th, after two Fortuynist ministers resigned, it collapsed.

The Fortuynists had got little joy in drawing up the government programme. But the real trouble was that even before joining they were busy bickering with each other, and they carried right on: the two resigners had been squabbling for months. With polls showing their ad hoc movement way down since May, the likely next step is a speedy fresh election and normality, Dutch-style, restored.

The Fortuynists were not the only trouble, though. Both they and the Liberals were worried by the EU's plans for a speedy completion of negotiations with the first ten would-be new members. The cabinet was already shaky. A caretaker government led by Mr Balkenende would have the power to give a go-ahead to the EU. But he feels he must have Parliament's backing first.

New elections will probably bring another centre-right coalition. But be warned: normality, Dutch-style, can include voting today and getting a government umpteen weeks later.

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Ukraine's politics

Kuchma weaker, but still boss

Oct 17th 2002 | KIEV
From The Economist print edition

Things are turning against Ukraine's president. But not yet very far

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Reuters

The things they say about me

A MURDERER and arms-dealer in the presidency? Leonid Kuchma's opponents have been saying so for ages. This week, at their invitation, a judge ordered an investigation into Ukraine's president. Did he plan the murder of Georgi Gongadze, a critical journalist? And what about Ukraine's alleged sale of Kolchuga radar systems to Iraq?

Criminal cases in Ukraine are often political, a sign that someone is in disfavour with the powers that be. This one has the opposite twist. A power struggle began in April, after parliamentary elections. In Ukraine, half of the seats are allocated by party lists, half by direct voting in districts. The opposition got most of the party-list seats, but pro-government parties most of the district ones, which were more vulnerable to vote-buying and other dirty tricks.

Mr Kuchma then strong-armed allies of his into three key posts in the new parliament, and thus into control of its agenda. In June he named as head of the presidential administration Viktor Medvedchuk, a politician and media tycoon distrusted even within Ukraine's shady oligarchic elite. That gave Mr Medvedchuk power over such bodies as the security services and tax inspectorate; sure enough, a few wavering parliamentarians soon came over to the pro-government block, giving it a razor-thin majority. Yulia Timoshenko, leader of an opposition party, says some were also offered enormous bribes.

Moreover, with Mr Medvedchuk on board, the bulk of Ukraine's media were now run by pro-government forces. Journalists soon began complaining of interference from above. This intensified last month, after street protests to mark the second anniversary of Mr Gongadze's death. “When there were problems with political protests, we had to make it look as if nothing had happened, Kiev was sound asleep,” says Oles Kovalchuk, a television news editor and one of several journalists who quit their jobs rather than submit.

The protests were in fact the biggest since Ukraine was born as a country, but they did not shake Mr Kuchma. Nor did the offer, from Mrs Timoshenko and others, that he could enjoy immunity from prosecution if he stepped down early. So the opposition has upped the stakes. Its allegations stem from hundreds of hours of recordings of Mr Kuchma made public two years ago by a former bodyguard. Mr Kuchma has always said the tapes, which have him plotting Mr Gongadze's elimination in exquisitely foul language, were fabrications. But last month an American firm hired by the FBI said that an alleged recording of Mr Kuchma agreeing to sell four Kolchuga systems to Iraq was indeed genuine.

The fact that a judge was willing to take up the case—not that it will go far, since the prosecutor-general answers directly to the president—suggests that Mr Kuchma is weaker than he used to be. He is under pressure from abroad too: the United States suspended $55m in bilateral aid after the news of the radar sales, and is now vigorously looking into the affair. The March elections, the size of the street protests and the journalists' resistance to censorship—some are now forming an independent trade union—all speak of a ground-swell against the president.

Whether the opposition can capitalise on it is less clear. Ranging from communists to nationalists, any anti-government coalition would be as solid as soap bubbles. The biggest party, the centre-right Our Ukraine, is itself a fusion of radicals and pragmatists; its leader, Victor Yushchenko, a darling of the West

who served well, though briefly, as prime minister under Mr Kuchma, dithers between outright opposition and looking for a deal that would make himself president after Mr Kuchma's term ends in 2004.

Don't count on a popular uprising either. When the opposition organised new protests last weekend, they were half the size of the previous ones; and some of the demonstrators, say sources close to the organisers, were paid to turn up. If Mr Kuchma has to quit early, it will probably be because his allies betray him.

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Serbia's presidential non-election

The voters who didn't vote

Oct 17th 2002 | BELGRADE
From The Economist print edition

Less than half the voters turned out. The rerun may favour the nationalists

Get article background

IT BEGAN as a presidential election. It ended as a farce. Less than half the voters in the Yugoslav republic of Serbia turned out for the second round on October 13th, so the whole election was invalid, and will have to be run again from the start.

The two second-round candidates were men who had united to overthrow Slobodan Milosevic as federal president of what was left of Yugoslavia in the elections of October 2000: Vojislav Kostunica, who replaced him in that post (which will probably soon be abolished), and Miroljub Labus, an economist. They are now deeply divided. And they have handed a golden opportunity to Vojislav Seselj, a strident ultra-nationalist, whom Mr Milosevic, from his United Nations cell in The Hague, had called on his supporters to back in the first round of the election.

Mr Seselj was knocked out in that round, but he had come an unexpectedly close third, behind Mr Labus, in a field of 11. He then called on his supporters to boycott the second round. But that was not the only reason for the low turn-out: ordinary Serbians are dismayed that the politicians seem to spend more time fighting each other than fighting economic stagnation.

When the election is rerun—at earliest, in December—Mr Labus, beaten two-to-one last Sunday among the 45% of voters who bothered to turn out, may not stand at all; and there is a real chance that Mr Kostunica's second-round opponent will be Mr Seselj. He has a strong appeal in southern Serbia, where economic reform could cost hundreds of thousands of jobs. His hand will probably be strengthened by the likely intensified bickering in the ruling DOS coalition after Sunday's fiasco.

The feuding runs deep. Mr Kostunica has disagreed deeply with the Serbian prime minister, Zoran Djindjic, about the pace of change in Serbia and the handing over of war-crimes suspects, including Mr Milosevic, to The Hague tribunal. Mr Kostunica favours slower economic reform, and he was furious when Mr Djindjic masterminded the surrender of Mr Milosevic to the UN court in June last year, since he himself wanted the ex-president tried at home. In the now abortive presidential contest, Mr Djindjic backed Mr Labus.

The date for fresh elections may well be controversial. The rules require a new poll within 60 days, but moves are afoot to change the requirement of a 50% turn-out, and that could delay things by months. This would give valuable time to Mr Seselj. Meanwhile the UN is waiting to get its hands on Serbia's current president, Milan Milutinovic, who is on its wanted list but has been deemed immune from prosecution until his term expires in early January.

The vacuum in Serbia will also hold up attempts to write a new constitution for what remains of the Yugoslav federation. The other republic left therein, little Montenegro, will hold parliamentary elections on October 20th. This looks like being a close race between those Montenegrins ready for looser ties with Serbia and those who want no tie at all. Whatever the outcome, however, both sides will now have to wait on events in Belgrade.

And for all these reasons, the western powers that hold the ring in ex-Yugoslavia are not amused.

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Turkey and the EU

Do you want us or do you not?

Oct 17th 2002 | ANKARA
From The Economist print edition

After yet another rebuff, increasingly Turks think the answer is No

Get article background

DOES the European Union really want Turkey, with its 70m Muslims, as a member? Probably not, many Turks have long thought. Their suspicions have been deepened by the European Commission's report last week on the progress achieved by the 13 candidate countries. Citing Turkey's failure to advance enough on various fronts, notably human rights, it again declined to set a date for negotiations to start.

“Unfair,” said Turkey's prime minister, Bulent Ecevit. “Political,” said Ahmet Necdet Sezer, its firmly pro-EU president. After decades of knocking on the door, Turks are starting to believe that the EU will always find an excuse for keeping it shut.

For example, take human rights. Turkey's record is sorry indeed. But in August, its parliament overwhelmingly adopted a raft of reforms. The death penalty was scrapped, except in times of war. Bans on teaching the Kurdish language or broadcasting in it were lifted. Non-Muslim religious foundations can now acquire property, albeit after jumping through a series of bureaucratic hoops.

Yes, says the EU, but we need to see implementation. This has been slow. Students petitioning their universities for Kurdish-language courses still face trial under anti-terror laws. Police torture, says Turkey's Human Rights Foundation, remains widespread. The banning of Recep Tayyip Erdogan, leader of the front-running party, from the elections due on November 3rd, because of a past conviction for, supposedly, inciting religious hatred by reciting a poem, reflects the law but hardly Turkey's pledge of free speech.

But then some other countries had not fulfilled all the EU's criteria when they got dates to begin their accession negotiations. Is Turkey being discriminated against? Quite possibly, some EU officials admit. By Germany, in particular, Turks suspect.

But Turkey is not conceding defeat. It is ploughing ahead with steps that it hopes may wrest a date from EU leaders at their Copenhagen summit in December. This week a court sentenced ten police officers to a total of 1,020 months in jail for torturing a group of left-wing teenagers nearly seven years ago. Moves are afoot to expunge the 15-year sentences that four prominent Kurdish members of Parliament got in 1994 for addressing that body in their mother tongue.

The greatest inducement—though not one of the EU's official conditions—would be enough arm-twisting of the Turkish Cypriots to bring a reunification deal for that island before the EU summit. With a new government yet to be formed after November 3rd, that would be hard, unless the armed forces press for it. They might: the generals keep saying that EU membership is a strategic goal.

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Turkey's new politician

The weight of money

Oct 17th 2002 | ISTANBUL
From The Economist print edition

He's rich, he's handsome, and he is riding high in the opinion polls

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AP

He's their boy

UNTIL a few weeks ago, Turkey's voters barely gave a damn for the general election due on November 3rd. Most are fed up with the same old gang of politicians, and the one exciting figure, Recep Tayyip Erdogan, the fiery leader of the relatively new but front-running conservative AK, or White, Party has been banned from standing. But then Cem Uzan hit the scene.

He is a multi-millionaire, facing a slew of court cases accusing him of fraud and racketeering. But pollsters say his Youth Party—a mini-party that he has in effect bought and reinvented—is one of only three, with the Whites and the secularist Republican People's Party, likely to get the 10% of the national vote needed to win any seats at all.

That prospect leaves Turkey's western creditors aghast. For Mr Uzan, outdoing the traditional nationalists, has vowed to teach America and the West “a good lesson” and to “kick out the IMF”. That agency, which last year staved off economic collapse in Turkey with pledges of huge loans, says it will freeze further disbursements until after the elections.

Primed by Turkey's top image maker, Mr Uzan has also promised to scrap value-added tax, distribute land to single people, give all primary-school children free textbooks and quadruple the number of universities. His rhetoric, at rallies warmed up by pop stars, has won him wide support, among unemployed Kurdish youths near the Iranian border as among the millions of Anatolian migrants in their shanty-towns on the edges of Istanbul. Women love his boyish good looks and jet-setting ways. He has also cheerfully violated Turkey's broadcasting laws to promote himself through eight Uzan-owned radio stations, three television channels, and two newspapers, and by text messages sent via his mobile-phone company, Telsim.

A seat in parliament would save him from 100 or so lawsuits that he faces in Turkey. Nokia and Motorola, two mobile-phone suppliers, are suing him in America for defaulting on over $2.5 billion in vendor finance that they extended to Telsim. Though a court in New York dealt him a heavy blow this week, the two companies also might find their suit made more complex.

No matter, say an alarming number of Turks when questioned about his business tactics: it's great to see a Turk ripping off the West for a change. Besides, they add, he's so rich already that, unlike other politicians, he might feel no need to rip off Turkey.

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Charlemagne

Those ungrateful Irish

Oct 17th 2002
From The Economist print edition

However their referendum on the Nice treaty goes, Ireland's voters plainly have doubts about the EU. Why?

IT WAS nearing midnight when Pat Cox snapped. Mr Cox, the president of the European Parliament, has been criss-crossing Ireland for the past month trying to persuade his fellow countrymen to vote in favour of the European Union's Nice treaty in a referendum on October 19th. Five days before the crucial vote, he started the day with a 7.30 breakfast with businessmen in Cork, in the south, then speeches, interviews and finally an evening debate nearly halfway up the country in Galway.

For all Mr Cox's eloquence, many of the voters packed into a back room of the Menlo Park Hotel seemed unconvinced by his argument that it was both a moral duty and an act of enlightened self-interest for the Irish to vote Yes to a treaty that paves the way to letting ten new countries, mainly from Central Europe, into the EU. A law student complained that the treaty would allow big countries to push around small ones; an anxious young man with a beard worried that Nice had all been cooked up by faceless multinationals; a businessman complained that the treaty would lead to the militarisation of Europe and spell the end of Irish neutrality; an angry man at the back said that it was undemocratic and a disgrace that the Irish, having said No to Nice in a referendum last year, are now being asked to vote again on the same issue; an elderly postman said that the farmers to whom he delivered mail will all vote “No” because “if Nice goes through, there'll be no more money from Brussels and the country will be full of blacks.” To this complaint, and many others, Mr Cox responded with patience and politeness. But finally, genial understanding gave way to rawer emotion. “I just find it unbelievable that we in Ireland should even think of unbundling our relationship with Europe, which has been such a profound success and has turned us from a stagnant, backward, failed part of the British regional economy into a modern and prosperous European country.”

Amen to that, they will say in Brussels. For however the vote goes on October 19th (both opinion polls and bookmakers are predicting a Yes—which is what they said before last year's No) Ireland's image within the European Union has changed forever. Put bluntly, many Eurocrats and people in candidate countries have concluded that the Irish are selfish ingrates. Look how mightily Ireland has benefited from EU membership, they say. How could they even think about trying to deprive poorer countries in Central and Eastern Europe of the same benefits?

The story of Ireland's success within the EU is often cited as an inspiration by those currently knocking on the Union's door. When Ireland joined the then European Economic Community in 1973, the country's income-per-head was about 60% of the community's average; it is now around 120%. Ireland's biggest export for most of its history has been its people; now high-tech goods stream out of Ireland and immigrants stream in. In the past 30 years, a combination of agricultural and regional development subsidies has seen a net total of *euro*32 billion (say $30 billion, in round figures) transferred to Ireland from the rest of the EU—not bad for a country of fewer than 4m people. And the benefits have not just been economic. Membership of the EU, alongside economic success, has allowed Ireland to step out of the psychological shadow of Britain. “These days we fly over London and get off in Paris or Brussels,” boasts Brendan Halligan, of Ireland's Institute of European Affairs.

Yet the two Nice referendums, and the whole atmosphere surrounding the campaigns, have demonstrated that Ireland is no longer uncritically in love with Europe. Brigid Laffan, an academic prominent in the Yes campaign, laments that the increasing penetration of British newspapers and television stations in Ireland has “infected the Irish with the virus of Euroscepticism.” But there may be other, more pragmatic considerations at work. It is not hard to love an institution that is showering you with money. But Ireland's growing wealth, and the inevitable reforms of the EU's agricultural policy that will be necessitated by its enlargement, will mean that the Brussels money tap will soon be turned off. Perish the thought, but Ireland may soon be a net contributor to the EU budget.

What is more, the “Europe” that Ireland joined is constantly changing. It was fine to be a small member of a club of nine, as the Irish were in 1973. But to represent under 1% of the population of a club of 25, and one that is taking an increasing number of decisions by majority vote, is potentially more worrying. One of the keys to Ireland's economic success was first its corporate-tax breaks for new investment, later its readiness for a low corporate-tax rate all round (16% now, 12.5% from next January), far below the EU average of more than 30%. The Nice treaty poses no direct threat to this low-tax regime, but “ever closer union” may in time call it into question. While the No campaigners are frequently plain wrong in the details of their arguments about “militarisation” and “tax harmonisation”, the general thrust of their case—that the EU is expanding its competences and eroding national sovereignty—is hard to dispute.

If even they are unhappy with the EU, why?

The Irish are not alone in worrying about such things. Indeed the whole complaint about the “ungrateful Irish” risks missing the point. Because of a quirk of its constitutional law, Ireland is the only member of the EU that has been compelled to hold a referendum on the Nice treaty. It is highly likely that if other countries had held similar votes, there would have been multiple Noes to Nice. For polls show that the Irish are indeed keenly aware of the benefits that EU membership has brought them; in cross-European questionnaires they regularly top the poll for Europhilia. Perhaps the question the Eurocrats should be asking themselves is not why the Irish are so ungrateful. The real question is this: what is so unappealing about the modern-day European Union that even the Irish are turning Eurosceptical?

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Computerising the NHS

The health service's IT problem

Oct 17th 2002
From The Economist print edition

Greater use of information technology is key to reforming the NHS. The trouble is, government IT projects tend to go wrong

Get article background

AS CIVIL servants go, Richard Granger, who has just taken up his post as the new information-technology (IT) chief of the National Health Service, is well-paid. With an annual salary of £250,000 ($390,000), he earns more than Nigel Crisp, the chief executive of the NHS; more than Alan Milburn, the health secretary; more, even, than Tony Blair.

That gives some idea of the importance, and difficulty, of Mr Granger's new job. It is arguably the world's largest single IT project, with a proposed budget of £12 billion over the next five years (from barely £1 billion this year). But a big revamp is generally agreed to be a necessary, though not sufficient, condition for delivering improvements across the NHS as a whole. The Wanless report earlier this year concluded that spending on technology had to double at once if the NHS was to reach its targets; the NHS spends less on IT per employee than any other industry sector.

Under plans outlined earlier this year at a Downing Street seminar, widening the NHS's sclerotic information arteries could make it more responsive in three areas in particular, by doing away with paperwork. (Paper forms, brown envelopes and even carbon paper are still the way most data get around.) Online booking of hospital appointments would allow patients to choose convenient times and reschedule if they were unable to attend. Electronic transmission of prescriptions from doctors to pharmacists would do away with errors caused by spidery handwriting, and cut costs by recommending generic drugs automatically. And the digitisation of patient records would make it easier for hospitals and local doctors to exchange information. A Londoner taken ill in Liverpool, for example, could have his details beamed across the country.

It all sounds great. But the government has staked its credibility on delivering clear improvements to public services, so Mr Granger has been asked to start implementing these three programmes starting next April, after just a few months of planning, with a target of 50% coverage by December 2005. Such a tight timetable for such a large project would be cause for concern on its own, election or no. But there is a bigger, more worrying problem: large government IT projects seem to have a habit of going wrong. They are often late, over budget, or both. In some cases, they are abandoned altogether.

Worrying prognosis

Software problems meant that the Swanwick air-traffic control centre, for example, due to open in 1996 and expected to cost £475m, was finally switched on this year, six years late and £180m over budget. It is already obsolete. Pathway, a benefit-payment card scheme involving the Post Office, the Department of Social Security and ICL, a computer-services firm, collapsed after three years, wasting £300m. The Child Support Agency's £200m system, supplied by EDS, another computer company, was supposed to launch in April. It is now expected to launch next year, a year late and £50m over budget.

In 1999, problems with the Passport Office's new computer system caused chaos for thousands of travellers. It was finally launched last year, nearly three years late. The National Probation Service's case-record and management system was scrapped last year when completion was projected to be two years late and 70% over budget. Just last month, the Inland Revenue's new system for filing tax returns online suffered from technical problems.

Government IT projects tend to fail for a number of reasons, in Britain and elsewhere, says Ashim Pal of Meta Group, a consultancy. For a start, they tend to be over-ambitious. Worse, government agencies tend to be useless at project-management, commonly handing it over to the firm implementing the project, so that there is no independent scrutiny. Such firms have a habit of trying to try to reinvent the wheel, rather than use cheaper, existing technology; the result is vendor lock-in, since only the original supplier then understands how the system works.

Another problem, says William Heath of Kable, an e-government consultancy, is that government agencies must conform to far stricter procurement regulations than private firms when putting a contract out to tender. The specifications are then, in effect, set in stone, and it is very difficult to make changes once the project is under way. Mr Heath also blames government bodies for being insufficiently concerned about customer service. All this, he says, means “there is a deep fear—terror is not perhaps too strong a word—about the risk of IT project failures screwing up the proposed NHS reforms.”

Ah, but this will be different, respond the optimists, for a number of reasons. For a start, there is proper funding, says Justin Keen of the Nuffield Institute, a health think-tank at the University of Leeds. The previous NHS IT plan, dating back to 1998, was not explicitly funded, so it is hardly surprising that it missed its targets. And the appointment of Mr Granger, an e-government specialist from Deloitte Consulting who will be personally responsible for the reforms, suggests that IT is now being taken far more seriously.

A new approach to NHS procurement is also being tried: a third way between the current piecemeal approach to IT, with decisions made at the local level, and the centralised model for major IT projects, which is to hand over the project to a single firm, such as EDS or IBM. The new plan is for England's 28 strategic health authorities to buy systems from industry consortia, with standards set nationally. This forces rival vendors to work together, says Rebecca George, director of government business at IBM, one of the firms that hopes to benefit from the splurge in IT spending. But, she claims, things are going well. “We're all talking to each other already,” she says. “Everybody is desperate for this to work.”

Another important change is the rise of the Internet, and a growing emphasis on open standards. This makes it more likely that products from different suppliers will work together, avoids expensive wheel-reinvention and reduces the scope for lock-in. The new NHS-wide e-mail service, for example, being built by EDS, is a web-based service similar to HotMail. The use of open standards will also allow central managers to set, say, the format of electronic patient records, while allowing decisions about implementation to be made on a local level. Rather than imposing new systems across the country, this means existing systems that work well can be left in place, provided they can be tweaked to adhere to the national standards.

But the main source of optimism is an almost mystical belief in the power of something called the Gateway review process to prevent future government IT fiascos. Gateway was devised by the Office of Government Commerce, which oversees purchases by government departments, in response to an investigation into IT failures, the McCartney report, published in May 2000. In essence, it involves a

system of reviews and appraisals to ensure that IT projects make sense to start with, and then stay on target. But since such projects take several years, it is too early to say whether the widespread faith in Gateway's magical powers is justified.

There is, then, some evidence that lessons have been learned from the failure of previous IT projects. But things could still go horribly wrong. One problem, says Mike Davis, a consultant at the Butler Group, is that the NHS is not a single organisation, but a loose confederation of thousands of GPs'surgeries, pharmacies, hospitals and clinics. So implementation at local level, despite a firm lead from the centre, could prove a stumbling block. And if things go wrong, a consortium could be harder to deal with than a single supplier, since its members will no doubt blame each other.

Another worry, says Mr Heath, is that Gateway will simply mean more bureaucracy. NHSIT projects are already evaluated by teams from the Treasury, the Department of Health and the Cabinet Office, among others. All these reviews and appraisals take time that might be better spent getting on with the job, he suggests. The sensitive nature of medical information also means that the security and privacy of patient records must be handled carefully. A security foul-up could undermine confidence in the entire project.

But Mr Granger must do more than merely prevent a disaster; he is also expected to deliver visible results in time for the next election. If he manages to overcome the curse of government IT, he will be hailed as a miracle-worker. But if he fails, the result could be an IT fiasco of unprecedented proportions.

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Northern Ireland

Desperate times

Oct 17th 2002
From The Economist print edition

Can an almost unknown politician keep the peace process alive?

Reuters

Eyes on Robinson

Get article background

IT IS a sign of near-desperation when all those involved in the tottering Northern Ireland peace process—politicians in London, Dublin and Washington, nationalists and some unionists, too—light on an obscure figure in a refusenik party to come to its rescue. But with David Trimble, first minister of the Executive and leader of the Ulster Unionist Party, now seen as damaged by the troubles of the peace process, eyes are now turning to Peter Robinson, Ian Paisley's deputy at the head of the Democratic Unionist Party (DUP).

The Northern Ireland secretary, John Reid, this week announced an indefinite suspension of the Assembly and Executive in Stormont, set up under the Good Friday Agreement of 1998 to give the peace process some sort of institutional structure. The Unionists were already bent on bringing down the Executive in January, citing the failure of Republicans to give up their guns, but an almost farcical pile-up of events accelerated the timetable.

The latest of these, the alleged IRA infiltration of Northern Ireland Office files, is now to be investigated by MI5. Documents shown by security chiefs to Mr Reid, Tony Blair and the Irish prime minister, Bertie Ahern, apparently convinced all three that Republicans have been doing some serious spying. Sinn Fein, the IRA's political wing, continues to claim that “securocrats” in intelligence and the civil service have manipulated events. But there's more: suspected IRA members face terrorist charges in the Irish Republic and Colombia.

The final complicating factor is that elections due to be held next May could put the DUP and Sinn Fein at the top of the polls. If that happens, they are required by the rules of the Agreement to provide co-operative first and deputy-first ministers. No one can imagine Mr Paisley nominating a DUP member for either position, and Mr Robinson said this week that this was his position too. But the younger man also stressed that his party had to be involved in negotiations.

Might Mr Robinson also be the man for either of these posts? He has spent his career in the shadow of his leader. Mr Paisley is still a formidable vote-getter, but he is also 76 and frail.

Mr Robinson is a chilly hardliner and a talented administrator. He is also widely believed to be the man who persuaded Mr Paisley that the DUP should agree to take posts in the Executive (though DUP members refused throughout to attend full Executive meetings with Sinn Fein). As minister for regional affairs, he went to work with a will, and recently issued a detailed plan for road-building in the province.

Last week Mr Robinson shared a television studio with Sinn Fein's Martin McGuinness, outgoing minister for education. The DUP usually refuses to sit in the same studio as Republicans. Mr Paisley was not informed until the last minute of Mr Robinson's appearance. A phone conversation was overheard in which the deputy said insistently: “I want to do it.”

Mr Robinson and Mr McGuinness yelled at each other in a predictable way, but they have a couple of things in common. They were often described by civil servants and others as the two most able Stormont ministers. Both sounded unhappy to see devolution fold again.

Mr Robinson is an unlikely saviour for the peace process, but there are few other candidates around. Optimists suggest that he might just try to help rescue devolution, as his last chance to escape Mr Paisley's shadow.

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Architecture

Going up north

Oct 17th 2002 | GATESHEAD
From The Economist print edition

The uses of industrial dereliction

Get article background

THE House of Commons and Buckingham Palace had better look to their laurels. All the best new British buildings that have critics in raptures seem to be going up in the north.

Last weekend, the great and the good in British architecture decamped northwards to celebrate the award of the Stirling Prize, Britain's Oscar for building design, to Wilkinson Eyre Architects for their curving and pivoting footbridge across the Tyne. The award ceremony took place in Gateshead's Baltic contemporary arts centre, converted from a disused flour mill to much acclaim. Close by, Lord Foster's future entry for the prize, a music centre designed to look like a great tidal wave about to break into the river below the Tyne Bridge (itself a great piece of Victorian design), is under construction.

Neither is this a solitary oasis of northern creativity. Manchester's new Imperial War Museum is much praised, as is the Lowry art gallery across the river in Salford. Liverpool council is running a competition to design something stunning to sit alongside the Liver Building on the waterfront. Last year's Stirling Prize was won by the Magna Centre (also designed by Wilkinson Eyre), an industrial heritage museum in Rotherham.

By contrast, London and the south-east, the richest and busiest part of Britain, does poorly. Docklands, the great new commercial heart of the city, is virtually a design-award-free zone, apart from Canary Wharf tube station, which is (obviously) mostly underground. Big new buildings, such as the British Library, tend to attract brickbats rather than praise. Paul Hyett, president of the Royal Institute of British Architects, says London has some good new buildings, but concedes: “There is a certain complacency amongst London architects. Architects in the north are more daring.”

“There is a certain complacency amongst London architects. Architects in the north are more daring”

Sir Terry Farrel, a Newcastle lad whose own contributions to northern style include the masterplan for the rebuilt north bank of the Tyne, and the Deep, an aquarium in Hull, asserts that the best buildings have always been in the north. Look, he says, at the town halls of Leeds and Manchester, or the sweep of Newcastle's Grey Street and Edinburgh's Princes Street. “London is an amorphous place. It is a commercial city where they pull things down all the time,” he says. “In the north, there is a freedom to express, an independence, a desire to challenge.”

Maybe. A more likely explanation is that Britain's northern cities, since the collapse of traditional industry, have rather lost their way and need striking new structures to express a new identity. London, on the other hand, is quite happy as the financial and political capital. It does not need to build anything to assert that.

London also has a big stock of existing fine buildings. Whenever anything radically new is proposed, such as Daniel Libeskind's cubist spiral extension to the Victoria and Albert Museum, there are howls of protest that it does not fit in. Getting planning approval takes ages. There was no such protest about Mr Libeskind's glass-shards war museum in Manchester, because it sits amidst cleared industrial dereliction as, indeed, do all the new buildings on the Tyne. Deindustrialisation, it seems, has its advantages.

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Electricity industry

High tension

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Losses in Britain's power industry are forcing overdue rationalisation

FIRST British Energy hauled up the white flag and had to be bailed out with a temporary loan from the government. Now another firm in Britain's troubled electricity sector is in difficulties. TXU Europe, which has nearly 4m electricity customers in Britain and also owns three power stations, is teetering on the edge of insolvency. If it goes down, it could imperil AES Drax, which owns the country's biggest generating plant, much of whose output goes to TXU Europe.

So does this turmoil condemn the whole experiment in liberalising the electricity industry as a disaster that will lead to California-style blackouts? Far from it. What it means is that competition is working and that a much-needed rationalisation of the industry is under way.

The present difficulties of the power industry are a consequence of excess capacity. According to Ofgem, the industry regulator, there is currently 22% surplus supply. This built up in the 1990s because the generating industry was privatised in 1990 as a duopoly—National Power and Powergen—that was able to exercise considerable market power over prices. As the generators stripped out costs, the industry became highly profitable, which encouraged other firms to enter the market and to build more power plants.

The result has been a sharp reduction in wholesale prices, which have dropped by 40% in the past four years. This has made much of the plant in the industry unprofitable, and rationalisation inevitable. At first sight, the most obvious candidate for the chop is British Energy, which generates a fifth of the country's electricity. Since early September, it has been able to carry on trading only because of an emergency government loan. On September 26th, this was increased from £410m to £650m and extended to the end of November.

But allowing British Energy to go bust would not solve the industry's problems. At present, the company is saddled with some extra financial burdens like its obligation to reprocess—rather than store—its nuclear waste. Rid of them, the company could re-emerge in administration as a relatively low-cost producer. In any case, nuclear capacity is indispensable if the government is to meet its international commitments to reduce carbon dioxide emissions. “One way or another, nuclear generation will carry on,” says David Newbery, professor of applied economics at Cambridge University.

This means that rationalisation has to occur principally in the non-nuclear part of the industry. It is already under way. On October 9th, Powergen, now owned by the German utility E.ON, mothballed a fifth of its generating capacity. This process is likely to accelerate because of the difficulties faced by TXU Europe.

The company is in trouble in Britain, which accounts for most of its business, because it is locked into loss-making contracts with a number of generators to purchase power for its retail customers. It had originally hoped to buy out these contracts with a lump-sum payment. However, this week, its American owner, TXU, withdrew a promised financial lifeline of £450m and put its subsidiary up for sale. As a result, TXU Europe is urgently seeking to renegotiate its loss-making contracts. On October 14th, it failed to make a £20m payment due to AES Drax under one of the contracts, arguing that pre-scheduled payments were also subject to renegotiation.

Whatever the precise outcome of these talks, the effect will be to expose more power-generators to market prices for electricity, increasing the pressure to withdraw capacity. Eventually, prices should recover to levels that permit profitable generation. One worry is that too much supply will be withdrawn, leaving consumers vulnerable to power cuts. But this seems unlikely, since plant can be mothballed

rather than closed permanently. For the time being, the problem is over-capacity, the solution is rationalisation.

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Exclusion

Getting out more often

Oct 17th 2002
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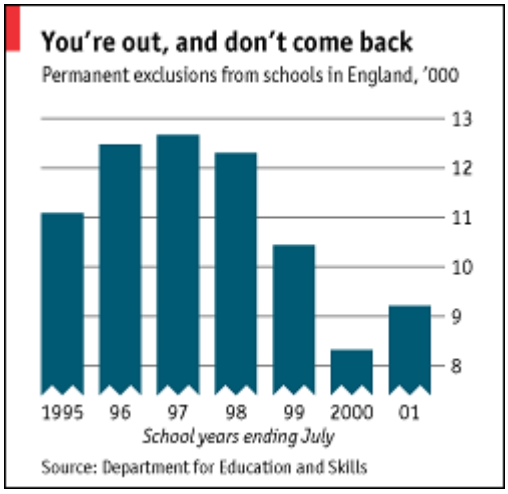
How not to deal with troubled youths



HOW many times do you have to threaten to kill a teacher before you get kicked out of school? More than 40, if the recent experience of two 15-year-old tearaways in Surrey is anything to go by. After leaving 44 death threats on their PE teacher's voicemail, the boys were at last rumbled and promptly expelled by their headmaster. But his decision was later quashed by an independent appeals panel, and the would-be killers went back to school. When the papers got hold of the story, leader writers rose seemingly as one to denounce the panel's decision. The beleaguered education minister, Estelle Morris—delighted, no doubt, to divert attention from the ongoing A-levels circus and to demonstrate her steely commitment to discipline—stepped in personally to overrule the appeals panel and boot the boys out for a second time. They are now being educated at home, and will be placed in pupil referral units. One of the pair has agreed not to return to the school.

The brouhaha brings into focus a significant shift in the present government's stance on "permanent exclusion" (as plain old expulsion is known these days). When Labour came to power in 1997, it set out to cut the growing number of children permanently excluded from school by a third by 2002. But targets were later dropped and numbers are rising again. New guidance says that schools can permanently exclude pupils for one-off offences, such as possession of a dangerous weapon.

This toughening-up has several causes. Discipline at school is a top priority for most parents, as the impassioned response to the Surrey case clearly shows. Another influence may have been Tony Blair's visit to some of the worst schools in Chicago in 1999. An impressive transformation was occurring under the "zero-tolerance" policy of the city's then chief of schools, Paul Vallas. From 1994-2000, he oversaw a 50% reduction in assaults; an 80% drop in the number of dangerous weapons floating around schools; and a higher than average increase in test scores.

Mr Vallas puts his success down to three factors: establishing a clear line on unacceptable behaviour; the strict observance of due process in dealing with complaints and expulsions; and a quick and seamless process of getting disruptive pupils into specialist schools. Exclusions, he says, were a crucial part of the process.

Equally important is what happens to pupils after they have been slung out of normal schools. In Britain, most excluded children end up in "pupil referral units"—commonly known as "sin bins". People who have been to one of these schools are five times more likely to end up in jail than those who haven't. In America, there is a variety of providers—state, non-profit and private—with different success-rates. Keystone Education, which offers specialist education tailored to different aptitudes in several states, claims that 80% of its graduates keep on the right side of the law for at least a year after they have left, whereas just 20% or so from the state's special schools do. But that sort of schooling is expensive. According to Renee Grant-Mitchell of the Chicago Board of Education, the cost of going private is around $10,000 per pupil per year, compared with around $8,400 for the state alternative.

Other educationalists reject Mr Vallas's zero-tolerance approach. Carl Parsons of Canterbury Christ Church University College insists that the social and economic costs of exclusion far outweigh the benefits. Many excluded pupils receive as little as three or four hours of tuition each week (compared

with the government's target of 25 hours). Some get none at all.

Rather than embracing the American approach, Mr Parsons advocates a swing back towards Continental models. France, he says, has a much better system of dealing with difficult pupils. There the approach to discipline is based around prevention and conciliation, rather than punishment and protection. Greater attention is paid to the root causes of disaffection. French children as young as three are taught, for instance, how to sit still and to answer questions politely. Simple stuff, but stuff which has long-term benefits.

Such differences, Mr Parsons believes, are fundamental. In France, education is seen as the means by which children earn their place as citizens in French society. In England, it is a personal good that may be withdrawn if a pupil is undeserving. “This is more than a symbolic difference. It indicates the extent to which the state believes it is responsible for its children.”

Britain's way of dealing with troubled children lacks the strengths of either the French or the American model. Schools do not intervene as early to deal with behavioural problems as the French do; yet the system also lacks the expensive, intensive remedial schools on offer in some parts of America. It is not just the children who pay the price.

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ITV

The two-humped beast

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A merger looks inevitable, but also anti-competitive

EVERYBODY in British television assumes that it will happen. The government is in favour. Even its critics privately concede it is inevitable. Yet the merger of Carlton Communications and Granada Media, the two main ITV-franchise holders, to create a single ITV company would run into such tricky competition problems that it could probably be waved through only with either contorted restructuring or political interference.

Carlton and Granada, which have tried—and failed—to agree on how to glue themselves together in the past, announced last week that, once again, they were in “advanced discussions” on a merger. They have already worked out who will own what: Carlton's shareholders will get 32% of the equity of ITV plc, Granada's 68%. They have also sorted out who will be the boss. Michael Green, Carlton's founder and chairman, will become chairman; Charles Allen, Granada's chairman, will be its chief executive. (Granada had already shed its surplus chief executive; Carlton's is expected to depart too.) And they have the backing of the government. The draft communications bill, published in May this year, specifically lifts the ban on the formation of a single ITV company. “Any consequent consolidation in the TV industry”, it states, “will benefit consumers and companies alike.”

Yet as Michael Grenfell, an anti-trust partner at Norton Rose, a law firm, puts it: “There is clearly a competition issue in terms of their share of the advertising market.” While ITV grabs only 24% of all TV viewing these days, its share of all TV advertising is a hefty 54%. This, fear advertisers, would give a combined ITV sales house far too much might. As it is, all merger proposals must be referred to the Competition Commission if they involve a market share that exceeds 25%.

The two media companies have plenty of arguments to put before the regulator. They will claim that the definition of the advertising market should be broadened to include not only TV but other forms of media such as billboards and radio. Yet the regulator itself, in a ruling only two years ago, argued that “TV advertising is at present separate from the markets for other advertising media.” They will also point out that their share of the TV-ad market is on the decline: as recently as 1995, when cable and satellite-TV was in its infancy, ITV bagged a far-heavier 70% of the total. Yet the regulator has already stated that, even taking into account this downward trend, ITV will remain worryingly dominant in the near future.

The trouble, as everybody knows, is that it is virtually unthinkable for the merger not to happen. Thanks to its own blunders with pay-TV but also to the advertising slump, ITV is in a hole. It is about to lose its head of channels, David Liddiment; it has failed to snap up Dawn Airey, who was recently lured from heading Channel 5 to sort out content at BSkyB. ITV's current structure, a two-humped beast, is weird, wasteful and dysfunctional. No other country forces its main commercial broadcaster to compete with itself in this way. So, somehow, the deal will probably be pushed through.

This might be done in two ways. The first would be to create a bizarre structure to keep the ad-sales house of one of the two merging companies, probably Carlton's, separate from the new ITV company. For this to be acceptable to the regulator, it would need to be robustly independent from the combined ITV. Yet such a set-up would deprive a single ITV of much of the benefits of merging: up to a third of all cost savings, on some calculations.

The other way, should the regulator recommend against the merger, would be for Patricia Hewitt, the trade secretary, to reject that conclusion. This would be technically possible, but politically embarrassing and render the entire competition procedure a charade.

The irony is that the real difficulty at the heart of all this agonising about ITV lies not in the commercial

TV sector at all. It is the might of the BBC, the most powerful creature in British TV. If the BBC were to take advertising, as do state-owned broadcasters in France and Germany, the problem of ITV's market dominance would evaporate. The troubles at ITV depend on the government's attitude towards the BBC in more ways than one. Even a single ITV's success as a commercial broadcaster rests heavily on the BBC, and on whether it continues to beat ITV at its own game in its relentless quest for ratings.

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Bagehot

A hard sell

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As Europe's problems mount, so the prospects for Britain joining the euro retreat

PERHAPS galvanised by the prime minister's apparent euro-fervour at the Labour Party conference a fortnight ago, the usually slightly dozy pro-euro “Britain in Europe” group finally got round this week to making the economic case for joining the single currency. The well-argued 21-page pamphlet has a foreword by the former chairman of the Federal Reserve, Paul Volcker, and lists among its six distinguished co-authors the likes of the LSE's Lord Layard, former CBI director-general Adair Turner and Willem Buiter, the chief economist of the European Bank of Reconstruction and Development, most of whom have also penned eloquent articles in upmarket newspapers over the last few days.

Britain in Europe has been understandably reluctant to waste its powder before there was a prospect of battle. And with only nine months to go before the Treasury declares the outcome of its “five tests”, it must have reasoned that the “No” campaign has dominated the argument for too long. But really, one's heart bleeds for them. What a truly awful moment to have to start making the case for Britain's euro entry. In its short life the eurozone has experienced more than its share of buffeting, but never has it looked quite so uninviting as it does today.

Despite the many English people who holiday and buy houses in France, Italy and Spain, very few have learned to love the European Union (the Celtic fringe feels rather differently, but that's another matter). Just as most of the electorate voted “Yes” 27 years ago in the referendum to stay in the EEC out of fear rather than from any real enthusiasm, the pro-euro campaign, if it is honest, has always depended on something similar. In the mid-1970s it wasn't difficult to portray the EEC as glossily successful—the main engine of growth for the original six members, nearly all of whom had long since overtaken Britain in prosperity. With the political establishment united in declaring that remaining outside would ensure further economic decline, the only dissidents were a ragtag collection of left-wing socialists and old school nationalists.

But today, it's the “No” campaigners who are more able to enlist fear as their ally. Until recently, the best arguments of the antis were as academic and couched in possibility as those of the euro-enthusiasts are now: whether a “one size fits all” monetary policy could really be made to work across so many distinctively different economies; whether there might be occasions when the Stability and Growth Pact (which sounds more Orwellian by the day) could prove to be a tad inflexible; or whether the European Central Bank would inspire greater confidence if it learned a thing or two about transparency and inflation targets from the Bank of England. We now know the answer to most of those questions, and they're not the ones the euro-enthusiasts would have wished for.

In the past week, France has declared its intention to flout the stability pact. (A close adviser to the French finance minister told *Le Monde*: “The stability pact is like Procrustes' bed: too small for some, too big for others and a torture for all.”) The Schröder government has openly pleaded with the ECB to relax interest rates that many believe are pushing Germany towards deflation and a banking crisis. That both Germany and Italy (whose economy is similarly mired) are also expected, along with France, to tighten fiscal policy in response to what is mainly cyclical overshooting looks to many like the economics of the madhouse.

The central charge increasingly made against the euro and all its works is that the institutions and policy instruments agreed upon in Maastricht a decade ago were all intended to bear down upon an inflationary threat that no longer exists. In today's Europe, the enemies are more likely to be sluggish to non-existent growth in many countries, deflation in others, high unemployment, structural rigidities and a mounting risk of debt default. The economic convergence that the euro was meant to encourage has not materialised, while nobody seems to know whether the ECB has any lender of last resort responsibility

should systemic risk attack a part of Europe's financial system.

Hello, Europe, are you listening?

It's not a pretty picture. At a time when the British economy still continues to perform rather better than the eurozone average and opinion in favour of the euro remains stuck at just under a third in the polls, the economic arguments of the pro-euro faction are not going to cut much ice. Their claim that, by eliminating exchange-rate risk, Britain will participate in huge economies of scale and consequent productivity gains seems remote from the present reality. As for any risk to Britain's traditionally high levels of foreign direct investment, that too hardly seems urgent compared with blood-curdling dangers of entry that the “No” campaign can summon up. What, for example, might happen if Britain's overheated housing market were to crash after joining the euro? Without the freedom to relax monetary policy swiftly, a long and painful “Britain only” recession, which the ECB could safely ignore, would ensue.

In the light of all this, what meaning should we draw from Tony Blair's stirring words in Blackpool? “The euro is not just about our economy, but our destiny. We should only join the euro if the economic tests are met. That is clear. But if the tests are passed, we go for it.” Even as the prospect of a referendum in this parliament recedes, we can expect Mr Blair to raise the volume of his political support for the euro. Note that word “destiny”. It is designed to convey an idea of inevitability. But the intended audience will not be the voters of Britain, but the leaders of Europe, whom the prime minister must persuade of his honourable intentions at a time when relations are further strained by Iraq. Even the currently rampant Mr Blair must know that the euro—with any luck a reformed and happier euro—is a project for the next term.

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Fiat

Under siege

Oct 17th 2002 | TURIN AND ROME
From The Economist print edition

What has really been going on at Italy's failing car company

Get article background

TO UNDERSTAND the cause of the crisis now engulfing Fiat, once the pride of the elegant Gianni Agnelli and his family, hop into a taxi in Turin, the cars-to-insurance group's home town. The driver explains that he no longer drives a Fiat. He prefers an Opel, made by an arm of America's General Motors (GM), because he got fed up with visiting the repair shop on his days off.

Once Fiat had a lock-hold in Italy on such customers. These days its market share has collapsed. A consequence is that Fiat Auto, its car-making business, is ruined, trading only on the back of support from the group's other operations. Now those businesses cannot produce enough profit to plug the hole. Indeed, cash has been draining from Fiat at an alarming rate, while an embattled management struggles with a cost base that some analysts reckon is twice as big as Fiat needs for its level of car production.

On October 9th Fiat announced a big restructuring of the car business. The 8,100 proposed job losses led to strikes and protests, giving the crisis an instant political dimension. Silvio Berlusconi, Italy's prime minister, met Fiat's top two managers on October 13th and is said to have told them, none too politely, to step aside and let the state take over solving the problem. Members of his governing right-wing coalition are angered by the consequences of Fiat's job cuts, especially those that will affect the economically weak south of the country. The unions called for a general strike on October 18th.

The government may be tempted to respond by stepping in, for the sake of electoral popularity. Insiders have floated the idea of “ItalAuto”, a state-owned car-maker that would salvage Fiat Auto. However, the government cannot simply move in on Fiat. Three obstacles stand in its way: Brussels, bankers and the company's deal with America's GM.

Certainly Brussels is unlikely to look kindly on too blatant an intervention. Nor are Fiat's lead bankers, who were summoned to meet Giulio Tremonti, Italy's finance minister, in Rome on October 16th. Their discussions, expected to extend over several sessions, have thrown up a clash of views. The banks believe that only a market-friendly rescue of Fiat makes sense. The government, under electoral pressure, wants more direct action.

Fiat money

In fact, Fiat's future is constrained far more than most Italians realise by the terms of a rescue agreement reached with its banks in May. In effect, the banks, concerned by the sudden deterioration in Fiat's finances, struck a hard bargain with management. In return for the promise of a *euro*3 billion ($2.9 billion) rights issue three years hence, Fiat has either to sell or to fix its auto business. If it elects to stay in car-making, it must sell other assets to reduce its *euro*5 billion of net debt to a manageable level. In the meantime, no new loans will be forthcoming.

This contract has been tightly drawn and leaves Fiat with little room for manoeuvre. A series of financial deadlines will force the pace of its efforts both to fix its car business and to sell assets to stabilise its balance sheet. According to bankers, it might have to sell even such jewels as Toro, its successful insurance business. If Fiat slips from the timetable, it will lose the promised rights issue, at which point the group will, in effect, be bust.

The banks were able to drive such a hard bargain because, behind the scenes, Fiat was fighting off an audacious break-up bid by Mediobanca, a Milanese investment bank that hungers to return to the days when it controlled big chunks of Italian industry. Mediobanca had formulated a plan to push Fiat into bankruptcy, forcing its banks to accept a debt-for-equity swap combined with a long-term workout (to be conducted largely by Mediobanca itself) of the group's extensive assets. The Agnelli family that controls Fiat turned to its creditors for a less scary deal.

Besides Brussels and bankers, there is a third dimension to Fiat's future. In Detroit on October 15th GM announced a third-quarter loss of $804m. It blamed a write-down of the value of its 20% stake in Fiat Auto, from $2.4 billion to $220m. This, said GM, meant that it valued the car company at a modest $1.1 billion. Fiat bosses in Turin shot back within hours, saying that this book-keeping move “substantially understates the fair economic value of Fiat Auto, based on its long-term prospects, market positions and portfolio of brands”.

Despite the arguing, there seems little doubt that Fiat will, one way or another, end up in GM's arms. Paolo Fresco, Fiat's chairman, knows that the two sides will either agree on a price for the exercise of Fiat's put option to sell the remaining 80% to the Americans, or find other ways of collaborating. Already they have a joint company making engines and gearboxes for Europe and South America, as well as a joint venture for purchasing. The more they work together, the more inevitable their destiny seems.

If Fiat fails to staunch the bleeding at the car division, it will have no choice but to exercise the put option—its banks will see to that. But, even if Fiat Auto recovers, it will probably be exercised anyway. The Agnellis and other shareholders might well prefer to hold shares in GM. A slimmed-down Fiat group without Fiat Auto would also be a far more stable entity.

Fiat looks as though it has the world's biggest industrial company in a painful arm-lock, obliging GM to buy even though Fiat Auto looks a lot less attractive than at the time the deal was done. The Italians can sell the shares to GM after 2004 when it suits them, without the Americans having the corresponding right to buy when it suits GM's interest. The reason for this favourable deal was that, after a plan to merge Fiat with BMW fell through in 1999, Daimler-Benz wanted to buy Fiat. GM, fearing the effect of such a combination on its ailing European operations, signed the Fiat deal as a defensive measure.

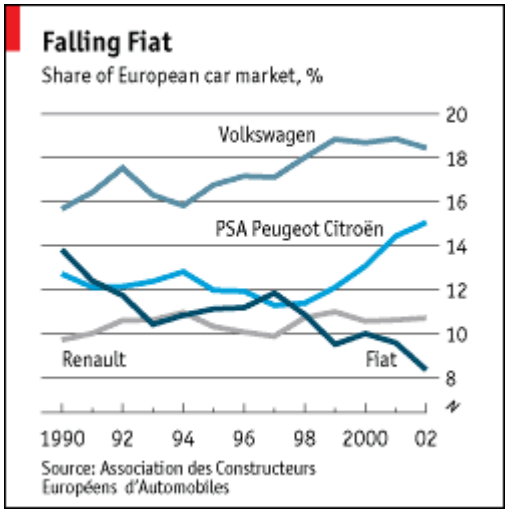
But GM has some power. The put option lapses if there is any change in control of Fiat SpA, the group holding company, according to John Devine, GM's chief financial officer. And filings to the American Securities and Exchange Commission indicate that, even at the level of Fiat Auto, GM has a veto over “certain significant corporate actions”. Any deals involving banks or the government, perhaps acting through some state-owned entity, taking a greater stake in Fiat Auto, would seem to need the Americans' approval.

In addition, the price of the remaining 80% share of Fiat Auto has to be decided by independent investment banks, if the two parties cannot agree. This week's exchanges appear to suggest that agreement may be hard to reach. But it seems likely that Fiat's management will make whatever compromises are needed, first to protect and then to exercise the put—and that its banks will go along in order to protect their loans.

Too many cars

The decline of Fiat's car business has been relentless (see chart). Fiat began the 1990s with 14% of the European market; by 2000 it was slipping into single figures. This year its share is hovering over 8%; but the trend is still down, with a figure of just over 7% in September. Paolo Cantarella, Fiat's group managing director until he was pushed out in May, obstinately insisted that the company's problem was inefficient distribution. However, the European car market has long had 30% overcapacity. Ford and GM have closed European factories, following Renault's dramatic closure of a big Belgian plant in 1997. But rising productivity in the remaining factories means that overcapacity persists.

This week Antonio Fazio, governor of the Bank of Italy, suggested that there were deficiencies in Fiat's book-keeping that blinded management to looming financial problems. Cesare Romiti, who ran Fiat from 1976 until he retired four years ago, said he simply could not understand the speed of the group's decline.



But the real source of the problem is less sinister. Fiat thought a wave of new models would revive it in 1995. In the event, only its sleek new Alfa Romeos were a success. Its medium-sized saloons, in the sectors that account for most of the sales and profits in Europe, were flops. They would surge to around 5% of the market segment, only to fade fast. That was supposed to change with the medium-sized Stilo, launched last year. It did not. Meanwhile Fiat's competitors, such as PSA Peugeot Citroën and Renault in France and Volkswagen in Germany, had learned how to ride the product cycle better.

Were it not for the historical baggage of the 2000 deal and the political consequences, a quick, easy exit for Fiat group (and one that would make most industrial sense) would be an instant marriage of Fiat Auto and GM's Opel subsidiary. GM is facing losses in Europe this year of over $500m, down some $300m on last year, and about half what Fiat Auto will lose. But, as this week's protests and political wrangling have shown, closing surplus capacity in Italy is not easy. The same is true for Opel in Germany. Clearly, even a merged company will face a tough future. At the moment, however, Fiat Auto will be lucky to have any future at all. The sooner Italians face up to that, the better.

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Porsche

In the fast lane

Oct 17th 2002 | FRANKFURT
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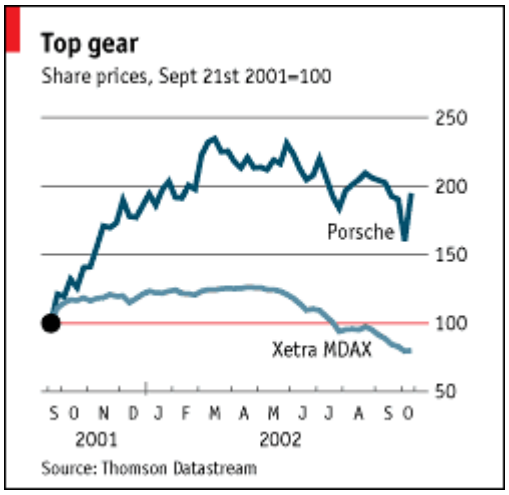
In theory, Porsche should be crashing. So much for theory

IT'S A recipe for disaster, isn't it? Your product is ludicrously expensive, and frivolous too. The world economy is looking sour, and you were hurt by the last big downturn. America, a country in no mood for fun, accounts for half your sales. You choose exclusion from Germany's mid-cap index rather than publish the quarterly reports that the stock exchange requires. And, when American lawmakers decide, in the wake of Enron, that chief executives have to vouch personally for the accuracy of company accounts? Forget it, you say: we won't list in New York after all.

Some disaster. In the year to July, Porsche, a maker of fast, expensive sports cars, saw its pre-tax profits rise by 40%, to *euro*829m ($815m). The number of cars sold in fact fell a shade, by 0.6%. Yet revenues surged because sales of Porsche's pricier, classic 911 rose by 20%, offsetting a similar fall for the cheaper line, the Boxster. Customers got wind of a facelift and waited.

As for the poor shareholders, they don't seem to mind being denied quarterly accounts. Since being kicked out of the MDAX, Porsche's shares have easily outperformed the sagging index (see chart). Porsche reckons that quarterly publication forces managers to think about the short term instead of planning ahead, and makes share prices more volatile. It says that other companies, still in the MDAX, agree but lack Porsche's clout. Wendelin Wiedeking, Porsche's chief executive since 1992, sat on the government-appointed commission that drew up Germany's new corporate-governance blueprint. It did not recommend quarterly reporting.



When Mr Wiedeking took over, Porsche was ailing. It has since enjoyed phenomenal success. Is it all downhill from here? Should demand drop, Porsche's costs look flexible; it boasts of its past success in hedging against exchange-rate movements.

In any case, Porsche is “decidedly confident” about 2002-03. In December a new line appears, no lissom sports car but the Cayenne, a chunky sports-utility vehicle (which shares a platform with the, ahem, rather less exclusive Volkswagen Tuareg). Porsche expects to sell 25,000 of these brutes a year, raising its sales by 50%, and shows no sign of slamming on the brakes.

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European telecoms

Texting the television

Oct 17th 2002
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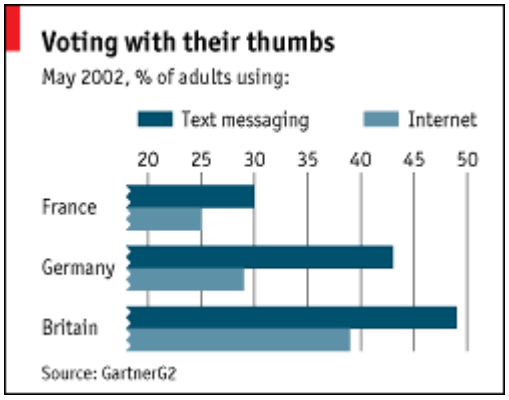
Interactive TV has taken off in Europe in an unexpected way: via mobile phones



THERE was a time when any self-respecting television show, particularly one aimed at a young audience, had to have an e-mail address. But on Europe's TV screens, such addresses are increasingly being pushed aside in favour of telephone numbers to which viewers can send text messages from their mobile phones. And no wonder: according to research about to be published by Gartner, a consultancy, text messaging has recently overtaken Internet use in Europe (see chart). One of the fastest-growing uses of text messaging, moreover, is interacting with television. Gartner's figures show that 20% of teenagers in France, 11% in Britain and 9% in Germany have sent messages in response to TV shows.

This has much to do with the boom in “reality TV” shows, such as “Big Brother”, in which viewers' votes decide the outcome. Most reality shows now allow text-message voting, and in some cases, such as the most recent series of “Big Brother” in Norway, the majority of votes are cast in this way. But there is more to TV-texting than voting. News shows encourage viewers to send in comments; games shows allow viewers to compete; music shows take requests by text message; and broadcasters operate on-screen chatrooms. People tend to have their mobiles with them on the sofa, so “it's a very natural form of interaction,” says Adam Daum of Gartner.

It can also be very lucrative, since mobile operators charge premium rates for messages to particular numbers. The most recent British series of “Big Brother”, for example, generated 5.4m text-message votes and £1.35m ($2.1m) in revenue. According to a report from Van Dusseldorp & Partners, a consultancy based in Amsterdam, the German edition of MTV's “Videoclash”, which invites viewers to vote for one of two rival videos, generates up to 40,000 messages an hour, each costing *euro*0.30 ($0.29). A text contest alongside the Belgian quiz show “1 Against 100” attracted 110,000 players in a month, each of whom paid *euro*0.50 per question in an eight-round contest. In Spain, a cryptic-crossword clue is displayed before the evening news broadcast; viewers are invited to text in their answers at a cost of *euro*1, for a chance to win a *euro*300 prize. On a typical day, 6,000 people take part.

TV-related text messaging now accounts for an appreciable share of mobile operators' data revenues. In July, a British operator, mmO2, reported better-than-expected financial results, thanks to the flood of messages caused by “Big Brother”. Operators typically take 40-50% of the revenue from each message, with the rest divided between the broadcaster, the programme maker and the firm providing the message-processing system. Text-message revenues are already a vital element of the business model for many shows. Inevitably, there is grumbling that the operators take too much of the pie. Endemol, the Netherlands-based production company behind “Big Brother” and many other reality TV shows has started building its own database of mobile-phone users. The next step will be to establish direct billing relationships with them, and bypass the operators.

Why has the union of television and text message suddenly proved so successful? One important factor is the availability of special four-, five- or six-digit numbers, called “shortcodes”. Each operator controls its own shortcodes, and only relatively recently have operators realised that it makes sense to co-operate and offer shortcodes that work across all networks. The availability of such common shortcodes was a breakthrough, says Lars Becker of Flytxt, a mobile-marketing firm, since shortcodes are far easier to remember when flashed up on the screen.

The operators' decision to co-operate in order to expand the market is part of a broader trend, observes Katrina Bond of Analysys, a consultancy. Faced with a choice between protecting their margins and allowing a new medium to emerge, operators have always chosen the first. WAP, a technology for reading cut-down web pages on mobile phones, failed because operators were reluctant to share revenue with content providers. Having learnt their lesson, operators are changing their tune. In France, one operator, Orange, has even gone so far as to publish a rate card for text-message revenue-sharing, a degree of transparency that would once have been unthinkable.

At a recent conference organised by Van Dusseldorp & Partners, Han Weegink of CMG, a firm that provides text-message infrastructure, noted that all this is subtly changing the nature of television. Rather than presenting content to viewers, an increasing number of programmes involve content that reacts to the viewer's input.

That was always the promise of interactive TV, of course. Interactive TV was supposed to revolve around fancy set-top boxes that plug directly into the television. But that approach has a number of drawbacks, says Mr Daum. It is expensive to develop and test software for multiple and incompatible types of set-top box, and the market penetration, at 40% or less, is lower than that for mobile phones, which are now owned by around 85% of Europeans. Also, mobile-phone applications can be quickly developed and set up. “You can get to market faster, and with fewer grasping intermediaries,” says Mr Daum. Providers of set-top box technology are adding text-messaging capabilities to their products.

The success of TV-related texting is a reminder of how easily an elaborate technology can be unexpectedly overtaken by a simpler, lower-tech approach. It does not mean that the traditional approach to interactive TV is doomed: indeed, it demonstrates that there is strong demand for interactive services. People, it seems, really do want to do more than just stare at the screen. If nothing else, couch potatoes like to exercise their thumbs.

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The Chicago Climate Exchange

Trading hot air

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A new approach to global warming

WHEN it comes to the environment, big American companies like to appear green. America puts out about a quarter of all the greenhouse-gas emissions that may cause global warming. Now a bunch of big businesses is deciding to make voluntary commitments to reduce the gases that their operations emit. They will then trade credits, which they can earn by surpassing their commitments on emissions reductions or by selling emissions "offsets" earned through projects such as reforestation or renewable energy initiatives, on the Chicago Climate Exchange (CCX), when it opens in early 2003.

The cuts they will pledge are likely to be modest. CCX's overall goal is a 2% reduction from 1999 levels this year, and another 1% annually thereafter. But they take corporate America into territory the government has shunned, for it has refused to ratify the Kyoto Protocol on climate change first agreed in 1997.

The CCX project has been developed by 28 large companies, including Ford, DuPont and BP America, with the cities of Chicago and Mexico city, a group that emits 700m tonnes of carbon dioxide each year, more than Britain does. Now is the time to move from the design stage to firm commitments on reductions. The companies most interested seem to be those with experience of other pollution exchanges, either abroad—Denmark and Britain both have markets in greenhouse-gas emissions and Canada is piloting one—or in the market to trade allowances for sulphur-dioxide emissions, which was set up in America ten years ago in the wake of an act to reduce emissions that cause acid rain.

The project is the brainchild of Richard Sandor, a former economist with the Chicago Board of Trade, best known for founding the international market in interest-rate derivatives. Mr Sandor helped design the sulphur-dioxide emissions exchange. But what makes CCX unique is the lack of any government involvement. Other established exchanges for greenhouse gases were all formed by governments that had signed up to the Kyoto Protocol.

Corporate involvement in CCX has been driven partly by the expectation of some future, government-imposed emissions-reduction programme in America. Some companies, such as AEP, a large utility, want the government to promise that it will take voluntary reductions into account in any future compulsory programme. "It would have been a lot easier with active government involvement," sighs Rob Routliffe, manager of greenhouse-gas emissions trading at DuPont. In Britain, where DuPont participates in a voluntary emissions-trading programme, the government has, in effect, paid companies to accept reduction targets, he says.

Deciding how to participate is tricky. Issues such as how to calculate companies' baseline emissions levels and how offset projects can generate emissions credits caused tension when CCX was being designed. "There are a lot of complexities we hadn't thought about," says Martin Zimmerman, Ford's vice-president of governmental affairs, who is lobbying his colleagues to support binding commitments. The National Association of Securities Dealers is devising compliance procedures to give CCX some bite. Companies that fail to meet their commitments will be judged by their peers, and may face penalties.

Mr Sandor is robust. "We're the biggest emitter in the world by far, so even a small percentage change becomes significant," he says. Hot stuff.

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Temporary executives

Just visiting

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How to fill a gap

WHAT do you do when you have to restructure a newly acquired business or sell a subsidiary, but have nobody available to do the job? One answer, according to headhunters keen for business, may be to hire a senior executive for an interim secondment.

Andrew Biles, chief executive of Gerber Foods, took on an interim manager to restructure a division in the west of England. Because the manager was only temporary, he could focus on the job without the distractions of thinking about corporate strategy or politics. Another opportunity came when Gerber acquired a business in Germany and the finance director left. “Headhunting can take three to six months, and I needed someone straight away,” he recalls. He found an interim finance director within a fortnight, who stayed for nine months—and then became permanent.

In parts of Europe, such temporary top dogs are standard practice. The peculiarities of labour and tax law in the Netherlands mean that many Dutch companies have used them. Now, with executive recruitment in the doldrums, big recruitment firms are keen to spread the practice to the United States.

Leading the charge is Heidrick & Struggles, whose Protem subsidiary placed about 60 senior executives last year in slots in Europe lasting for an average of eight months. Wes Richards, who is heading Protem's launch in America, finds that the biggest demand comes from private-equity companies.

After offering the service for six months, he has about 50 people in placements. The two skills that are most in demand are those of chief information and chief finance officers. One company had a finance officer who had never done an acquisition: Mr Richards is rustling up one who has for a 90-day stint. Another chief information officer (CIO) had never installed SAP's complex internal network: a former CIO is coming to talk him through the process.

Is this unemployment relief for sacked bosses? Mr Richards is aghast at the idea. He has on his books a former CIO from a big consumer company, who signed up because he was getting bored with raising horses on his ranch; and another who said helpfully, “I've got my own jet. If it's a real interesting appointment, I can get there.”

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E-mail spam

Filter it out

Oct 17th 2002
From The Economist print edition

Make e-mail polluters pay

"VICE-PRESIDENT of ideas, idealab": did any job title better catch the *Zeitgeist* of Silicon Valley at its bubbliest? Surely the holder of that position is now cleaning tables in some Palo Alto diner? Actually, no. Scott Banister, the ideas-man in question, is proof that there is life after dotcom death.

After idealab, a pioneering Internet "incubator", abandoned plans for an initial public offering that was once expected to raise $10 billion or more, Mr Banister and a colleague, Scott Weiss, started IronPort, a firm dedicated to improving the efficiency of e-mail delivery. Despite a drought of venture capital, they have already raised $20m, and next week they roll out what they hope will be a killer app: a novel solution to spam, the dark side of e-mail.

Every user of the Internet knows the frustration of an inbox clogged with unwanted correspondence from vendors of porn, cheap loans and anatomical enlargements. More recently, there has been a new frustration: anti-spamming filters that rebuff genuine correspondence. According to Mr Banister, "false positives" can account for up to 30% of the "spam" identified by some filters.

This can be more than annoying—valuable correspondence may never be delivered. The growing ingenuity of spam senders has made life hard for conventional filters. Obscenities are easy to scan for—but as the acceptability threshold of a filter is raised, to include words frequently but not exclusively used in spam (cheap loan, or enlargement, perhaps?), legitimate e-mail is increasingly misidentified.

The IronPort entrepreneurs think they can solve the problem. Their track record suggests they know how to deliver a successful Internet product. Mr Weiss was a founder of the free Hotmail service, and made a fortune when it was sold to Microsoft. Mr Banister came up with an e-mail list-hosting service while in college (he is still only 26). It is now Microsoft's listbuilder. He also claims some credit for Goto.com (now Overture), an Internet search engine that lists sites according to how much the site pays to appear when a specific keyword is entered.

Overture is one of the few unsung triumphs of web content, with a market capitalisation of $1.7 billion—down from its $6 billion peak, but still significant. And it is profitable. Mr Banister reckons that the key to its success was that it took economics seriously: buyers will not pay for a high listing if searchers do not value it, and thus reward it, when they find it. Its new anti-spam system also uses economic intuition, by requiring senders of e-mail to state clearly whether they are sending spam, and to back that statement with their own money in the form of a bond that will be forfeited if it turns out that they are lying. The idea, simply, is that, if the price of sending spam rises, less of it will be sent.

Servers fitted with IronPort's spam-recognition system will be able to identify "bonded senders" by their web addresses, and can block senders that are not bonded. Next week, it expects to announce that many of the best-known senders of non-spam bulk e-mail have signed up, along with the big Internet service providers, to its bonded-sender programme. The size of the bond will change over time, but is likely to be around $100,000 initially. The number of complaints made by recipients of e-mail from the sender will determine whether the bond is forfeited, in full or part. According to Mr Banister, "the first complaint will not cost you much, a 3-4 digit number will cause pain to the bonded sender and 10,000 or more will result in the most severe punishment." Here's hoping it works.

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EasyJet

Bashing Boeing

Oct 17th 2002
From The Economist print edition

EasyJet's switch to Airbus could be critical to the airline's future

Get article background

THEIR local newspaper of October 15th made painful reading for Boeing's senior executives. The *Seattle Times* headline above a story about Europe's biggest low-cost airline, easyJet, ordering aircraft from Airbus was: “Boeing is slipping to No. 2”. As the paper rightly pointed out, the easyJet order for 120 Airbus A319 jets ensures that the European company's deliveries next year will, for the first time, outstrip those of Boeing, which has dominated the jetliner market for nearly 50 years.

In the view of Martin Koehler, an aviation consultant at the Boston Consulting Group, this tips the balance in favour of Airbus more generally. The low-cost airlines, he points out, “were Boeing's last redoubt.” Over the past seven years Airbus has steadily caught up with the American manufacturer in every other part of the market. The Seattle firm crowed that all but two of the world's low-cost carriers followed the example of the original no-frills airline, America's Southwest, by buying nothing but Boeing's narrow-body 737 jet—the world's best-selling aircraft.

The reverse comes at a bad time for Alan Mulally, chief executive of Boeing's commercial-airplane group. The market for airliners has shrunk by half as mainstream carriers have plunged into losses: both Delta Air Lines and American Airlines this week reported rising losses for the latest quarter. The slump has had the inevitable impact on Boeing: its net profit fell to $372m in the third quarter, 43% down on a year earlier.

The competition from Airbus is likely to get tougher. The European manufacturer has broken Boeing's monopoly on jumbo-sized aircraft with its A380 double-decker, which it launched two years ago with an already fat order book. Meanwhile, Boeing's Sonic Cruiser (a futuristic aircraft designed to fly at almost the speed of sound) has not been well received by airlines. The current slump means they are more interested in economy than speed.

There is no doubt that Airbus slashed its price heavily to break into the European low-cost-carrier market; but equally, there is no doubt that Boeing offered a big discount in an effort to shut the Europeans out. Since low-cost carriers are the only airlines prospering enough to place big orders, this was a keenly fought contest. Expect similar battles ahead as the low-cost carriers expand further.

Mr Koehler forecasts that carriers such as easyJet and its arch-rival, Ryanair, will increase their share of the European short-haul and medium-haul market from 11% today to 28% in 2010. In Britain, he calculates that their share will be about 60%. Even in Germany, which is Europe's biggest aviation market but where the phenomenon has been slow to catch on, the low-cost airlines should capture about 25% of passengers.

The unstoppable ascent of the new carriers may, however, hurt the big flag-carriers less than might be expected. In Ryanair's case, Mr Koehler foresees 70% of its extra passengers coming from new demand created by rock-bottom prices. Ryanair makes a great fuss about tackling Lufthansa head-on, but its blustery boss, Michael O'Leary, perhaps exaggerates this to grab headlines in German newspapers.

EasyJet is taking a different route. Unlike Ryanair, it operates increasingly from mainstream airports alongside the flag carriers. Not surprisingly, half its growth will probably be “stolen” from the big carriers. EasyJet's strategy is riskier than Ryanair's. It is overtaking its rival in size by buying two low-cost airlines from British Airways: one was known as “go”, the other as Deutsche BA. Meanwhile Ryanair is concentrating on steady expansion of its own routes. Merging airlines is notoriously difficult, so easyJet

may have digestion problems. Simultaneously merging two different types of aircraft in one fleet could leave it seriously short of oxygen.

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China Telecom

Dialling the markets

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The world's fastest telecoms restructuring

EXACTLY five years ago, in the thick of the Asian crisis, a telecoms company from the mainland called China Telecom came to Hong Kong for a successful initial public offering (IPO) of shares. Since then, the company—renamed China Mobile—has become the world's largest mobile-phone operator and a blue chip on Hong Kong's stock exchange.

This week, another mainland telecoms company called China Telecom (CT) came to Hong Kong, hoping to repeat this performance. Market conditions are now much tougher: telecoms shares are out of favour everywhere. Nonetheless, CT's executives and bankers began wooing investors with the ambition of raising $3.7 billion, which would make this one of the three largest IPOs in the world this year.

That this is even plausible is a tribute to an impressive effort by China's government to turn its telecoms industry from a centrally planned fiasco into something more like an efficient and market-driven service industry. When Wu Jichuan, China's telecoms minister, bragged earlier this year that China has accomplished in five years what took European countries a decade, he was almost justified.

China Mobile and China Telecom both descend from the Ministry of Post and Telecommunications, which operated all telephone services in China until the mid-1990s as, in effect, a personal fief of Mr Wu's. Then—initially against his wishes—Beijing's top leaders decided to introduce competition, in stages. In 1994, they licensed a second mobile operator, China Unicom, under a rival ministry. In the late 1990s, they turned Mr Wu's ministry into a regulator and split the operations into four companies—one each for fixed-line, mobile, paging and satellite services.

So far these reforms have had their biggest impact in the mobile market. It has soared from nothing a decade ago to 145m subscribers last year, making it the world's largest. The duopolists, China Mobile and China Unicom, are both listed in Hong Kong, are transparent at least by Chinese standards, and have been competing fiercely for customers.

This year, the government is tackling the fixed-line market. In May, it yet again split what remained of Mr Wu's old empire, this time geographically. One company, China Netcom, inherited the telephone networks in ten northern and western provinces. The other got the other 21 provinces, including the wealthiest in the south and east, and retained the China Telecom name.

The idea is that these two—and eventually more—should now invade each other's turf, giving consumers real options. This is not yet quite the “orderly competition” that the government says it wants. Bizarre tales are emerging of the opponents sawing cables, smashing equipment, and beating up their rival's staff. But the essential framework is in place.

For investors, however, this enforced competition makes China Telecom rather less attractive. For the two mobile operators, revenues per user have been falling for years. About 11% of the population now own mobile phones—in other words, all Chinese who can afford one already have one—so signing up new customers means dropping prices by a lot. The fixed-line market, where penetration is higher, at 180m, or 14% of the population, may yet suffer a similar erosion in profitability.

Ironically, it may be some comfort that China's government remains the ultimate owner of all telecoms companies. Only 20% of CT's shares, for instance, are on offer to the public. And the government, by its own admission, has at heart not only the interests of consumers. It would also like to see strong and profitable operators—the sort that can please foreign investors and keep out foreign competitors once, in the distant future, these are genuinely allowed to join in.

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Face value

Keeping customers satisfied

Oct 17th 2002
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Can Tom Siebel manage a new relationship?

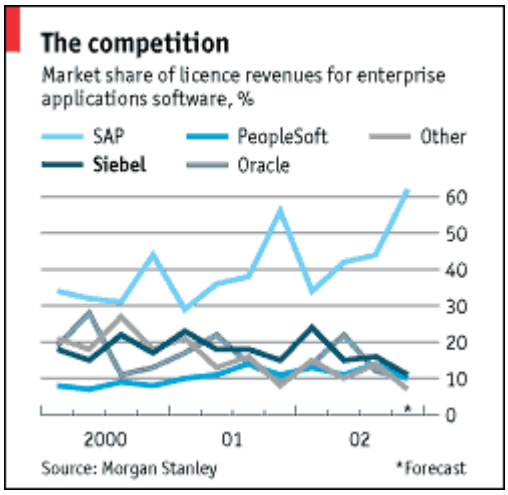
THESE days, Tom Siebel, chief executive of the eponymous software firm that he founded in 1993, treats even journalists with politeness. He no longer puts his feet disdainfully on the table, as in the heyday of the tech boom. However, this new charm at the top may not be enough.

Siebel Systems, a firm that could do no wrong even in the first year of the tech downturn, now seems increasingly out of tune with the new-found pragmatism of IT buyers. Even if its quarterly results, due on October 17th, exceed analysts' expectations, Siebel's problems go deep.

In the second half of the 1990s, Mr Siebel appeared to have created the perfect enterprise-software company. He focused on a class of software he had pioneered: specialised programs for customer-relationship management (CRM). He modelled his company on a salesforce, with all incentives geared towards customer happiness. And he entered partnerships with other IT firms, instead of competing with them. The corporate culture was more Germanic than Silicon Valley: no dogs in the office, food at the desk or art on the walls, and, of course, no T-shirts or jeans.

Even friends call Mr Siebel a micromanager. To his critics he is a control freak. He has the tools to stay on top. For instance, with a few mouse clicks he can see how employees are doing against their objectives. That matters a lot at Siebel, which makes a habit of firing the worst performing 5% of its workforce every six months.

Throughout the late 1990s, the results were impressive. Siebel's revenues doubled every year. Customers seemed to love its products. Their loyalty scores, routinely over 98%, resembled Iraqi election results. Yet this success now looks somewhat tarnished.



Take those customer-loyalty scores. Siebel has a small stake in Satmetrix, the research firm that does the surveys. The question behind Siebel's published loyalty scores asks, “Based on your experience with Siebel and its products, are you most likely to continue purchasing or using their products?” As Siebel customers are in effect locked into using its software, most can give only one answer.

It may be unfair to call the survey's results tainted. But more independent studies suggest that firms are just as happy or unhappy with Siebel's products as they are with most such packages. Nucleus Research, an IT research firm, recently asked 23 Siebel reference customers about their experiences. More than 60% said they had yet to make a positive return on their investment in Siebel software.

Really?

More important, analysts have begun asking questions about the quality of Siebel's revenues.They worry

that some “concurrent revenues”, deals struck with suppliers that have also sold goods and services to Siebel within six months of the transaction, are just swaps that do not reflect real demand. Such deals reached 18% of licence revenues in the second quarter of this year (up from 7% in 2001).

Some also wonder whether Siebel's numerous partnerships serve much purpose. They wonder, in particular, about the Universal Application Network (UAN), an initiative launched in April. This coalition of IT services and software firms is intended to develop ways of making it easier for companies to integrate their computer systems. But some UAN members imply that they have been asked to buy extra Siebel software in exchange for a good place at the table.

Perhaps most worrying for Siebel, the CRM market is maturing. The firm has made much of its money by selling CRM software in million-dollar chunks to telecoms and financial-services companies with huge call-centres. But most other firms can do with less, and IT budgets are tight. This has created an opening for newcomers, in particular Salesforce.com, which offers a web-based CRM service.

In addition, the CRM products of traditional enterprise-software vendors such as PeopleSoft, Oracle and SAP now seem good enough to compete with Siebel's. Compared with these rivals, Siebel increasingly looks like a one-trick pony, since it spends relatively little on R&D and did not use its shares, when their value was high, to diversify.

Unsurprisingly, Mr Siebel scoffs at all this. Satmetrix's surveys, he says, are solidly based; he uses them internally to improve products. By contrast, he points out Nucleus's research is statistically insignificant, given Siebel's 3,500 customers worldwide, and may even be propaganda financed by competitors. As for the partnerships, most members of the UAN were Siebel customers before the coalition was created. And if competitors are succeeding, that has yet to show up in the market-share data.

Siebel is now pushing into new markets, mainly software to manage relationships with employees, which Mr Siebel says will one day be a bigger market than CRM. The UAN, too, is a defensive measure to keep customers from defecting to traditional vendors.

All this may prove too little, too late, however. If IT spending does not soon recover significantly, the firm will probably have to merge—or at least co-operate closely—with another software company, to avoid being marginalised.

That may happen quite quickly. Insiders say that, on October 21st, at Siebel's user conference in Los Angeles, Mr Siebel and Bill Gates of Microsoft will announce a big alliance. Siebel will probably declare its support for .NET, Microsoft's new software platform, which needs a boost from a big enterprise-software vendor.

If this happens, people will ask what Siebel got in return for its support: perhaps a pledge that Microsoft will enter the CRM market less aggressively than it originally planned. And they will wonder, if both firms grow closer still, what kind of relationship management will allow Mr Siebel and Mr Gates—two of the biggest egos in software—to get along.

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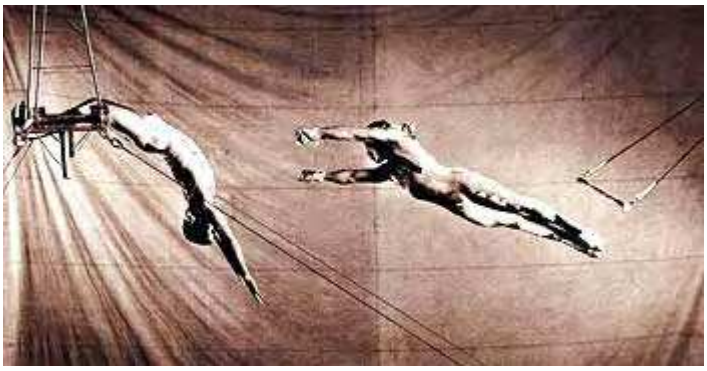
World stockmarkets

Inflection point?

Oct 17th 2002
From The Economist print edition



After two-and-a-half years of falling share prices, markets appear to turn

OCTOBER is traditionally a bad time for stockmarkets: the crashes of 1929 and 1987 both happened in that month. This year could be different. In the four days to October 15th, many of the world's main stockmarkets saw their biggest four-day gains, in percentage terms, in over a decade. America's Dow Jones Industrial Average rose by 13%, Germany's DAX by 17%.

Worries about profits had helped to drive shares to their recent lows. So desperate have investors been for good news that sentiment seems to have been helped by better-than-expected results in the third quarter from Yahoo!, hardly the workhorse of the American economy, and Citigroup, even though tussles with regulators mean an uncertain future for the bank. Those results may have helped the Dow up by 5% on October 15th alone. Then dismaying profit figures from Motorola, Intel and J.P. Morgan Chase dampened spirits once again. Not, however, before investors had begun to wonder if the long bear market might at last be over.

A crucial question, for it is often in the first few months after a bear market ends that the most money is made. America's S&P 500 index took only six months to rise by 40% from its low in late 1974, and three months from its trough in early 1982. London share prices doubled in only two months after the bear market ended in early 1975. Some investors fancy themselves to be on the cusp of similar gains. Abby Joseph Cohen, Goldman Sachs's chief equity strategist, predicts that the S&P 500 will rise, over the next year, by almost 50% from its low.

One popular argument for why the bear market may be over is that, by last week, the S&P 500 had fallen by almost 50% from its peak, a slightly bigger decline than during the bear market of 1973-74—indeed, the biggest since the Depression of the 1930s. The end of 1974 turned out to be an excellent time to buy shares (see chart). Moreover, the argument goes, global economic conditions are now healthier than in the 1970s, when economies were in the grip of stagflation. If share prices recovered strongly then, they can surely do so again now.

Remember, however, that the 1970s saw double-digit inflation. Measured in real terms, share prices have fallen by less from their peak this time. Low inflation implies that prices may have to fall by more in absolute terms to return to fair value. Adjusted for the rise in consumer prices, the rebound in share prices in the 1970s was also a lot less impressive. After an initial bounce in 1975, share prices stagnated. In real terms, the S&P 500 did not regain its level of January 1973 until as late as 1987.

A second argument to support a recovery in share prices is that they are

now close to fair value. As always, it depends which measure you pick. The S&P 500 stands at just under 30 times historical reported profits. This is down from over 40 at the peak, but well above the 50-year average of 15. Still, this exaggerates the overvaluation, since profits will presumably recover from today's depressed levels.

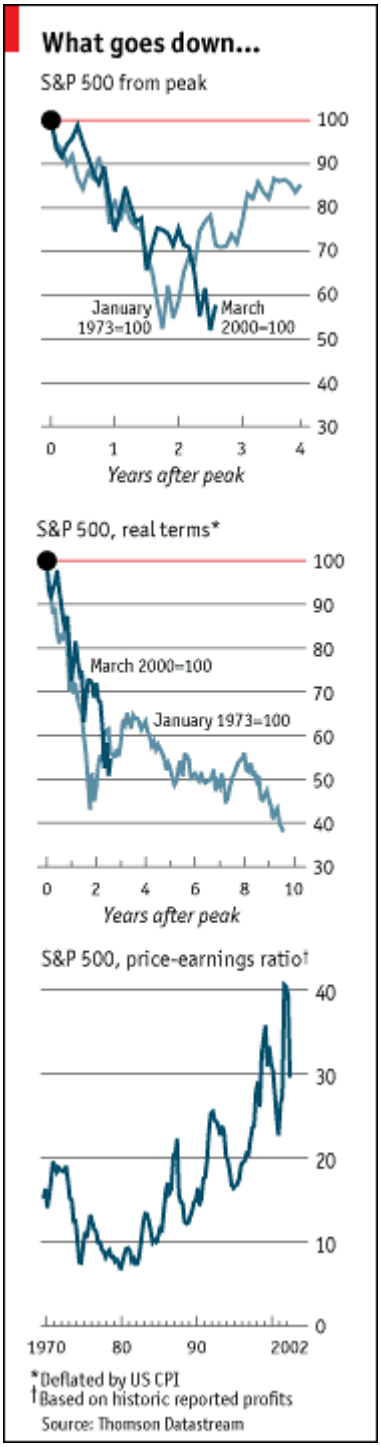
To correct for this distortion, Eric Lonergan at Cazenove calculates a cyclically adjusted price/earnings (p/e) ratio, using an estimate of trend profits. At its low point last week, this p/e ratio had fallen to 17, the average during the pre-bubble years of 1990-95. Yet in previous bear markets prices have undershot: in both 1974 and 1982 the p/e ratio dipped below 8. So American shares may yet have further to fall. Using the same measure, Mr Lonergan finds that British shares are cheap, with a p/e of 12; the rest of Europe has a ratio of 14.

Relative to bonds, on the other hand, American shares now look cheap. The dividend yield from shares is historically high, compared with government-bond yields. Yet this is partly because bond yields have tumbled on fears of sluggish growth and deflation. If these fears prove right, future profits will be severely dented. Even without deflation, analysts' average forecast of 18% growth in American corporate profits over the next year seems unrealistic, given that the growth in nominal GDP is unlikely to be more than 4-5%.

What is more, although most economists expect America's recovery to continue, the risk of a double-dip recession certainly cannot be ruled out. Business investment has fallen now for seven quarters in a row, but American consumers continue to spend. For how long? Consumer confidence, as tracked by the University of Michigan, fell sharply in early October, reaching its lowest level in nearly a decade. This partly reflects the plunge in share prices, however; if the stockmarket continues to rally, consumer confidence may return. On the other hand, if consumers cut their spending and the recovery stalls, share prices could easily drop a lot further.

There is a clear risk that the market still has new lows to test

Some investors would like to think that recent volatility is another sign of the end of the bear market. The S&P 500 rose or fell by at least 1% on 15 successive days up to October 11th, the longest such run in more than 60 years. Similar increases in volatility since the second world war, in 1950, 1974 and 1987, were followed by share-price gains of around 20% over the next six months. The snag is that in the 1930s such volatility was more common, and it was always followed by a further slide in share prices.



There is a clear risk that the market still has new lows to test. And even if one believes that share prices are no longer overvalued, the long-run prospects for equities are not dazzling. Over the long haul, share prices depend on profits, which cannot forever grow faster than nominal GDP—as they did through the 1990s. Real equity returns might average only 5% a year over the next decade, compared with annual returns of 25% over the four years to 1996.

Wild parties tend to lead to long hangovers. The 1990s witnessed the biggest bull market of all time, with share prices becoming more overvalued, by many measures, than ever before. By some measures, this is now the most severe bear market. Although share prices have fallen by less than in 1929-32, the total loss of global equity wealth as a percentage of GDP has already been more than it was during the Great Depression—and there may be further losses ahead.

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Brazil

The real crisis becomes more so

Oct 17th 2002 | SAO PAULO
From The Economist print edition

An emergency rise in rates fails to restore faith in Brazil's currency

Get article background

Reuters

Fraga's last shot before the locker room

SINCE the monetary-policy committee of Brazil's central bank was created seven years ago, it has held an emergency meeting only three times: at the height of Asia's financial crisis in 1997; during Russia's crisis in 1998; and this week, in the middle of a home-grown panic. Arminio Fraga, the bank's president, called the hasty meeting on October 14th, as measures that he had taken in the preceding days to halt a plunge in the *real* and in the prices of Brazil's bonds appeared to have failed. The outcome—a rise of three percentage points in the bank's overnight rate, to 21% a year—pleased nobody, and financial markets stayed weak. Investors were disappointed that the emergency meeting had not led to tougher action: at each of the previous two meetings, rates had been jacked up by at least 20 percentage points. Industrialists and some economists, on the other hand, said any rise was disastrous, threatening a recession.

Brazil's currency and bonds have now been falling for six months, as the chances have grown that the country's next president will be Luiz Inacio Lula da Silva, of the left-wing Workers' Party. In the first-round vote, on October 6th, Mr da Silva was only four points from outright victory. In the second round on October 27th, he should easily beat Jose Serra, the candidate of President Fernando Henrique Cardoso's centre-right coalition. Mr da Silva's shift to the political centre, including a pledge to honour Brazil's debts, rather than “renegotiate” them as he once threatened, has not convinced investors. Nor has the $30 billion loan package that the International Monetary Fund offered Brazil in August, whose terms Mr da Silva seemed to accept. Since most government bonds are linked to official interest rates or to the dollar, the debt burden has risen sharply, from 54% of GDP a year ago to about 64% now.

Last week, after announcing new restrictions on Brazilian banks' ability to hold dollars, Mr Fraga tried to jolt Mr da Silva into uttering more soothing words, by calling a news conference and lamenting that there was little more he himself could do, given the “crisis of confidence” caused by doubts over the election candidates' policies. Investors already knew this, but hearing the central-bank chief spell it out only made them feel worse. As the currency touched an all-time low of 4 *reais* to the dollar, down from 2.26 in April, Mr Fraga announced yet more restrictions on banks' holdings of dollars and raised their reserve requirements, so reducing their ability to make loans. By October 14th, the effects of even this were wearing off—hence the emergency rate rise.

The central bank was especially keen to prop up the *real* this week because $3.7 billion of government bonds were due to expire on October 16th, with a repayment linked to the exchange rate. Most of the bonds were in fact rolled over, but at painful interest rates and with a chunk of them now running for only one month. This debt, says Marcelo Carvalho, Latin American economist at Bank of America, will come back to haunt.

Certainly, time is running out, and it is hard to see what else Mr Fraga can try. More intervention in the currency markets? Already, the central bank is burning up foreign-exchange reserves so fast that by December they may fall to the minimum that Brazil has agreed with the IMF. Another rise in interest rates? By Mr Carvalho's reckoning, each percentage-point rise adds 0.3% of GDP to the government's annual interest bill, making the debt burden ever less bearable. Let the *real* fall? Then the cost of the government's dollar-linked debt, now about half the total, will soar. So, too, will inflation; next year's

target of less than 6.5% already looks a challenge. Mr Fraga says the weak *real* is now a “given”; he is setting interest rates only to try to keep to the inflation target.

Investors still prepared to lend to Brazil want to protect themselves from rising prices. The government is duly issuing more inflation-linked bonds. Oh dear. Part of the reason it got into its present mess was that it had fed the market's voracious appetite for dollar-linked bonds. It assumed that providing this hedge against depreciationwould help the currency to recover. As the *real* kept falling, the government kept playing double-or-quits, issuing ever more dollar-linked bonds but facing mounting losses on them. Now imagine it churning out inflation-linked bonds but finding that debt worries continue to weaken the *real*, stoke inflation and raise debt-service costs.

The main condition for the IMF's loan was that the new government should seek to stabilise the debt ratio by running a primary budget surplus (that is, a budget surplus before interest payments) equivalent to at least 3.75% of GDP next year. That no longer looks enough. The Fund will review the target in November. Will Mr da Silva, if he is president-elect by then, agree to a rise in the target surplus? Last June he promised to do so, if necessary, but on the stump he talks only of higher spending.

Some economists now wonder if a restructuring of Brazil's debts has become inevitable. It would be ironic, given that it took three failed shots at the presidency to make Mr da Silva renounce talk of any such radical measure, that he may now win power and promptly be forced into a restructuring. Brazil's financial and political institutions are stronger than Argentina's, so the results might be less horrible than the deep recession that has followed its southern neighbour's default. But they would still be painful. If he wins, Mr da Silva must surely do everything in his power to avoid any such disaster.

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Financial innovation

Doomsday derivatives

Oct 17th 2002
From The Economist print edition

Wall Street banks sell a bet on economic pain

SHOWING true concern for their customers, if not for the jobless, Deutsche Bank and Goldman Sachs earlier this month began offering investors the chance to profit by guessing, via call options, the level of American non-farm payrolls, a key indicator of employment. Later this month, the same banks will offer a flutter on a widely watched manufacturing index and, after that, on figures for retail sales.

As derivatives markets have boomed, investors have had the chance to hedge against almost any type of financial-market risk: falling share prices, swings in exchange rates or the risk that a borrower might default. Even protection from the risk of bad weather could be bought—but not, until now, the risk of a flagging economy.

And quite right, it seemed, since the risks of falling GDP are often reckoned to be borne by everybody. For any change in oil prices, or even in the weather, there is always somebody who wins (a ski resort, say) for everybody who loses (an orange grower). When a country tanks, all are losers. But that view is not quite right. First, globalisation makes risk-sharing possible across countries. Second, even within one country, economic variables have vastly different effects across industries.

Other attempts by banks to offer derivatives on property prices and on inflation have failed. This one uses a new style of auction, inspired in part by the “pari-mutuel” pricing familiar to horseracing fans: the odds you get are directly proportional to the bids put in.

The hope is that economic derivatives will one day be used by manufacturers and even individual savers to protect themselves from recession, falling house prices or unemployment. For now, though, the trading is mostly confined to the big investment banks. With so many job cuts in high finance these days, this may be a great way to hedge against lay-offs.

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Ishikawa Bank

Gaping

Oct 17th 2002 | ISHIKAWA
From The Economist print edition

A tale of reform, so-called

Get article background

THE case of Ishikawa Bank, a small regional bank, illustrates Japanese bank reform in practice. So far, Ishikawa's collapse last December has spawned one petition, seven lawsuits and a police investigation, while five reluctant banks are preparing to carve up and take over the failed bank. The petition (to the government) and lawsuits (against the bank) have been filed by angry investors who provided the bank with up to ¥22 billion ($175m) of equity eight months before the bank's collapse.

When Ishikawa closed its books for the half-year ending September 2000, it reported a capital-adequacy ratio of 6%, far above the 4% required for domestically licensed banks. When the Financial Services Agency (FSA) inspected the same accounts some months later it found a capital shortfall instead. To avoid being shut down, Ishikawa hurriedly raised ¥22 billion in March and April 2001. This put it back over the 4% threshold before the agency's five-month inspection was completed in May. A second inspection, just months later, found more large holes, and led to the bank's collapse.

The petitioners, led by a local estate agent, Yukinori Yoshizumi, want to know why a weak, unlisted bank, with little hope of attracting institutional investors, was allowed to turn to unsuspecting depositors and borrowers instead. Even as the FSA was inspecting the bank, pensioners, who did not even know what a share was, were persuaded to cash in their deposits and buy shares instead. People applying for mortgages were told they would get them if they bought shares in the bank. The FSA insists that this is merely market capitalism at work, adding that the issue is anyway outside its jurisdiction.

Most of the seven lawsuits also claim that the bank mis-sold shares. Share prospectuses did not arrive for weeks after purchases were made, if at all. Some investors were told that shares were merely a type of demand deposit. Others discovered that deposits had been transferred into shares without their knowledge. Weak corporate borrowers were pressured into borrowing fresh funds from the bank to buy its shares.

Illegal sales aside, Ishikawa is not an isolated case. Official figures suggest that many regional banks need to be recapitalised or shut. According to Koyo Ozeki of Merrill Lynch in Tokyo, some 40% of regional banks have more non-performing loans (less reserves) than they do capital (adjusted for unrealised equity losses). Although dozens of banks have gone under, more are turning, as Ishikawa did, to their customers for fresh capital. Despite calls for stricter guidelines on how banks raise capital, the FSA says it is not thinking of issuing any.

Ishikawa's case raises big questions about bank reform. Although many believe Ishikawa's assets and operations are largely obsolete and should be wound up, the government does not. When it first failed to find a buyer, it placed Ishikawa under the control of the government-owned Deposit Insurance Corporation (DIC). The government now seems to have persuaded five struggling regional banks to bid for bits of the bank.

The biggest, Hokuriku Bank, had an injection of public funds three years ago, but was forced, after more big losses, to raise fresh capital this year—from borrowers and depositors, naturally, and from three local governments. Analysts reckon that more big holes could swallow up another two years' worth of profits. Yet Hokuriku, whose inability to pay dividends last year has left the FSA controlling 18% of its voting rights, is expected to make a bid for Ishikawa as early as next month. Fortunately, Hokuriku and other banks taking over Ishikawa's operations can count on fresh aid from the government. Thanks to new measures being drawn up by the FSA, other dud banks can also get public funds if they merge.

Ishikawa's collapse might also offer a hint about the true scale of banks' bad loans. Many regulators, including the Bank of Japan and Heizo Takenaka, the FSA's new head, now want tougher inspections of banks' books. If Ishikawa is any indication, they could be in for a fright. An assessment by the DIC after Ishikawa's collapse had its capital shortfall quadrupling, to ¥104 billion—leaving it with a capital-adequacy ratio of minus 37%, compared with minus 6% that the FSA had calculated just three months earlier.

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German banks

This is tomorrow calling

Oct 17th 2002 | FRANKFURT
From The Economist print edition

The weak economy is exposing the structural flaws in Germany's banking market

"THE banks will be the steel industry of tomorrow," declared Ulrich Cartellieri, a director of Deutsche Bank, in 1990. Twelve years on, it may appear that Frankfurt's skyscrapers are indeed going the way of the Ruhr's smokestacks. Lately one blight after another has hit Germany's banks, from poorer credit ratings to rumours of a liquidity crunch at Commerzbank, the fourth-biggest of them. At times, banks' share prices have been in virtual freefall.

The panic has been overdone, and seems now to have passed. On October 15th, the blue-chip DAX index climbed back over 3,000, capping a four-day surge of 17%, with bank shares to the fore. Yet even after this, the share price of Germany's biggest bank, Deutsche Bank, had fallen by 28% in three months. Those of Commerzbank, HVB Group, the second-biggest bank, and Allianz, an insurer that last year bought Dresdner Bank, the number three, were all more than 40% down.

These woes largely reflect the feebleness of the country's economy. Corporate bankruptcies are running at record levels, pushing up bad-debt provisions. The collapsing stockmarket has pulverised the worth of banks' industrial stakes, still an important feature of German capitalism. Stuart Graham of Merrill Lynch estimates that on October 9th, when the stockmarket was at its recent lowest, the unrealised gains on Deutsche's equity holdings were just *euro*1.2 billion, down from *euro*5.5 billion at the end of the second quarter. At HVB, a *euro*4.2 billion gain had become a *euro*546m loss. Such falls in value, even though they are unrealised, have turned German banks' once-fabled capital strength into a weakness, just as happened in Japan. Unfortunately, unlike even the Japanese banks, the big German private-sector banks have a small share of a highly fragmented banking market.

Collectively, public-sector banks are the biggest domestic force. The 537 *Sparkassen* (savings banks), mainly owned by municipalities, and the 12 *Landesbanken*, regional banks owned by state governments and savings-banks associations, account for 39% of domestic retail and corporate deposits and 35% of bank lending. With hundreds of little local co-operative banks also taking a slice of the market, the four big private-sector banks have a mere 14% of deposits and 15% of loans.

The public-sector banks' state guarantees have held down their borrowing costs and hence their lending rates. That, in turn, has squeezed the profitability of the private-sector banks. Net interest margins in Germany have been consistently below 1%. According to Moody's, a rating agency, German banks' "recurring earning power"—their ability to generate profits year in, year out, without special measures such as asset sales—is far lower than that of American or other European banks.

Now change is being forced on the public-sector banks. New capital rules from the Basel committee of rich-country bank supervisors, enforceable from 2007 at the earliest, will make them more sensitive to the true creditworthiness of their borrowers and to their own credit ratings. They may then be keener to make good profits. An indifference to high returns, and a susceptibility to meddling by politicians, have tended to skew lending to fit regional objectives, seeing off private competition.

Under existing Basel rules, as Tobias Grün of HSBC points out, the *Landesbanken* may include a higher proportion of dated hybrid instruments in their tier-one capital than other banks. But as these instruments mature, this special dispensation will expire, and they will have to use undated replacements. And more expensive ones: the public banks' borrowing costs are likely to rise when, under EU competition rules, their state guarantees start to go—Germany's politicians finally gave in to pressure from the European Commission last year. *Landesbank* debt issued since July 2001 will not be guaranteed if it matures after 2015; nothing issued after 2005 will be supported at all.

This has already had some effect on the public-sector banks. Several of the *Landesbanken* have decided to restructure themselves; two announced a merger last month. The new structures are open, in theory, to private shareholders. Further moves to make the banks stronger financially will be less easy to engineer, even if they make sense. *Landesbanken* would be stronger, says HSBC's Mr Grün, if more had a solid retail franchise. The association of public-sector banks, the DSGV, opposes the vertical integration of *Sparkassen* and *Landesbanken* that this implies.

None of this looks like a source of swift relief for the private-sector banks. Even without guarantees, public-sector banks will remain less profit-oriented, and thus likelier to accept low margins, than private-sector competitors. Markets may reason that politicians will still support “their” banks if they ever get into trouble.

What about takeovers by private-sector banks of public ones, a seemingly obvious route to consolidation and one that some private bankers would like to follow? Such a change, even if municipalities wanted to sell, would probably require changes in states' savings-bank laws. It would not please the DSGV. The DSGV may also stop the Berlin savings bank using the association's red “S” logo, a powerful marketing symbol. Having bailed out the savings bank's scandal-stricken parent, Bankgesellschaft Berlin, the city government looks likely to sell it to an American bidder.

The big private-sector banks are no innocent victims. They have made bad mistakes, which they are now desperately trying to put right. Although Deutsche has built an investment-banking business of a certain note, it has tied itself in knots working out what to do with its retail business. Separately, it has been dumping a load of underperforming businesses, such as transaction services and asset management. Allianz has spent a year trying to staunch losses at Dresdner from corporate and investment banking. HVB's bad-loan provisions this year, some think, will be even more than the *euro*2.5 billion forecast by the bank. Commerzbank's investment-banking arm has lost money this year. All have been carrying unjustifiably high costs. A combination of complacency and strong labour laws has kept these banks from making deep cuts at home.

Now, they are starting to do the right things. They appear bent on cutting costs. They have been retreating from unprofitably risky loans to clients, especially to small businesses. According to Sam Theodore of Moody's, interest margins have begun to pick up this year. The German banks are at last starting to face facts, says Simon Harris at Oliver Wyman, a consultancy. But he fears that Germany's politicians are not. Until the public banks lose political support, new rules from Basel and Brussels will only half-cure the distortions in the German market.

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Financial regulation

A bit of give and take

Oct 17th 2002 | BRUSSELS
From The Economist print edition

Another transatlantic row over financial regulation

AMERICA'S corporate scandals have done more than anything to speed up the cumbersome process of European Union lawmaking. A new directive on financial conglomerates, which some have dubbed the post-Enron directive, is going at speed through the legislative hoops in Brussels and Strasbourg. EU finance ministers voted for it in May, the Council of Ministers formally approved it at the end of last month, and now the draft is returning to the European Parliament for a second reading. The legislators are amending existing directives on insurance, banking and investment services, so that they do not clash with the new directive, which could be EU law by the end of the year.

By and large, European companies are happy with the present form of the directive. But the Americans are not. Harvey Pitt, chairman of the Securities and Exchange Commission (SEC), recently voiced “considerable concern” about the extraterritorial impact of the directive. He was particularly worried about the appointment of an EU co-ordinator, supposed to evaluate the “equivalence” of the American regulatory regime. Mr Pitt declared that, if the EU decided that the supervision of American firms was neither sufficiently good nor sufficiently equivalent, forcing American companies to adapt would increase their cost of doing business in Europe—a competitive disadvantage.

Mr Pitt acknowledged the directive's noble intent: a more effective oversight of financial groups that mix banking, insurance and more, which might be falling through the cracks of current EU regulation. Such groups have about a third of European bank deposits; a quarter of Europe's life assurers and a fifth of its property-and-casualty insurers also fall into the category of financial conglomerate.

The main goal of the directive is to reduce risk. It aims to ensure adequate capitalisation of financial conglomerates by banning practices that artificially inflate a firm's capital base. A popular technique is “multiple gearing”, that is, counting the same capital twice in different entities within a group. Another is “downstreaming” of capital, where a company issues debt and then uses the proceeds as equity for its subsidiaries. The directive also aims to introduce new methods to calculate a financial conglomerate's overall solvency, a minimum gauge of financial health.

The directive calls for close scrutiny of intra-group transactions, to ensure that risk is not concentrated in a single unit, and for unified ways to measure and manage risk. Most importantly, each EU member will be required to appoint a single authority to supervise every financial conglomerate in its entirety—so-called global consolidated supervision.

This is the point of friction with the Americans. A big financial firm in the United States is supervised by a clutch of authorities. For instance, the SEC looks after a firm's broker-dealer operations; the Federal Reserve might supervise its banking arm; and state regulators oversee its insurance ventures. Supervision, in other words, is far from consolidated.

Mr Pitt wants to reach an acceptable compromise with the drafters of the financial-conglomerates directive. The Europeans are unlikely to accommodate that, however, unless they win some reciprocal relief from America's own extraterritorial measures in the Sarbanes-Oxley act. They demand exemptions from the strict controls of auditors of foreign companies listed on American stock exchanges, and also from strict rules on the composition and structure of company boards. An American compromise with Europe's directive might be to establish holding companies in Europe that are overseen as a whole. There may be cheaper ways—and a little time exists to find them. EU member countries will have until January 2005 to implement the new directive.

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Economics focus

Re-engineering the euro

Oct 17th 2002
From The Economist print edition

The euro area's rules on macroeconomic policy are stifling growth

Get article background

CALLS are growing for a redesign of Europe's framework for operating its single currency. Economic activity in the euro area has stalled, yet the European Central Bank is unlikely to cut interest rates until inflation falls within its target of “less than 2%”. Meanwhile, the EU's stability and growth pact prevents governments from using fiscal stimulus.

Most European policymakers are dismissing such calls for change. They blame the euro area's dismal performance on structural rigidities. It is true that rigid labour and product markets curb the region's potential growth rate; but poor macroeconomic management can also depress growth below potential. The danger is that rising unemployment will then make it even trickier to persuade voters to accept structural reforms.

Jean-Paul Fitoussi and Jérôme Creel, two French economists, argue in a pamphlet* just published by the Centre for European Reform that both the ECB and the stability pact need urgent reform. Unlike many of the bank's critics, they conclude that the ECB's monetary policy has been broadly appropriate for the euro area as a whole, given its rates of inflation and growth. Others have argued that the ECB was too slow to cut interest rates last year, when America's Federal Reserve reacted vigorously to evidence of slowdown. The authors point out, however, that at the start of last year the ECB's interest rates were lower than the Fed's. The euro area also had higher inflation and suffered a less severe slowdown than America. So the ECB did not need to cut rates by as much as the Fed did.

One reason why the ECB's policy has been perceived as being overly cautious is that, eager to establish a tough reputation, it always tends to explain changes in interest rates in terms of inflation, giving the impression that it does not care about growth. Yet its actions show that it does care: the ECB has allowed inflation to remain above its target for most of the past three years.

Even so, the authors argue that the inflation target is too tight. Most countries' central banks have higher ones. Britain's and Australia's both have a mid-point of 2.5%; the Reserve Bank of New Zealand, which started with an inflation target of 0-2% in 1990, now has a range of 1-3%. Ideally, the ECB's target should be raised so that it, too, has a mid-point of 2-2.5%. What is more, Mr Fitoussi and Mr Creel suggest that the inflation target should be fixed not by the ECB, but by the European Parliament. This would make the ECB more accountable, and at the same time make it harder for politicians to criticise a policy that they themselves had set.

The instability and depression pact

European economies that can no longer set their own monetary policy need more scope than in the past to let fiscal policy play a role in stabilising economies. At the very least, built-in fiscal stabilisers, ie, the automatic decline in taxes and increase in welfare benefits in a recession, must be allowed to operate fully. Yet under the stability pact, governments have to balance their budgets over the medium term, and deficits may not exceed 3% of GDP. As slower growth has squeezed tax revenues and swelled budget deficits, the stability pact is, bizarrely, forcing governments to tighten fiscal policy just as their economies move towards recession.

The tendency for prices in different countries to converge can also cause problems. Market forces tend to

cause prices to rise faster in lower-cost countries, such as Spain or Ireland, than in high-cost countries, such as Germany. Ideally, a high-inflation country needs higher interest rates; yet the perversity of a single currency gives the likes of Ireland the lowest real rates. At the other extreme, countries with slow growth and low inflation, notably Germany, face the highest real interest rates, cramping growth. High-inflation countries may therefore need a more restrictive fiscal policy, and low inflation countries a looser one.

The dispersion of inflation rates in the euro area offers another reason for thinking that the ECB's inflation target is too low. In effect, it implies a target of less than 1% for Germany. If aspiring countries from Eastern Europe were to adopt the euro, then the ECB's target would be even less sensible. The new entrants will have a lower GDP per head than existing members, and as they catch up they will naturally have higher inflation, as the prices of non-traded goods and services adjust upwards. If the ECB keeps its inflation target at less than 2%, higher inflation in some countries will mean even lower inflation, if not absolute deflation, in Germany. Enlargement increases the case for a higher inflation target and more flexible fiscal policy.

Should the stability pact be scrapped? The authors would prefer to modify it, arguing that there is a need for some fiscal constraint within a monetary union, to discourage reckless borrowing in a single country that may push up interest rates across the whole area. At the very least, the stability pact should be redefined in terms of the fiscal balance adjusted over the economic cycle. That would give governments a bit more room to respond to a slump. Then again, if the real concern is the level of debt, any rule should be set in terms not of the budget deficit, but of the ratio of public debt to GDP. That would give a country like Germany, whose public debt is just 60% of GDP, compared with over 100% in Italy, more room to support its economy.

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* “How to Reform the European Central Bank”, by Jean-Paul Fitoussi and Jérôme Creel. Centre for European Reform.

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AIDS

The next wave

Oct 17th 2002
From The Economist print edition

The global fund set up to combat AIDS risks running out of money even before it has really got going

Get article background

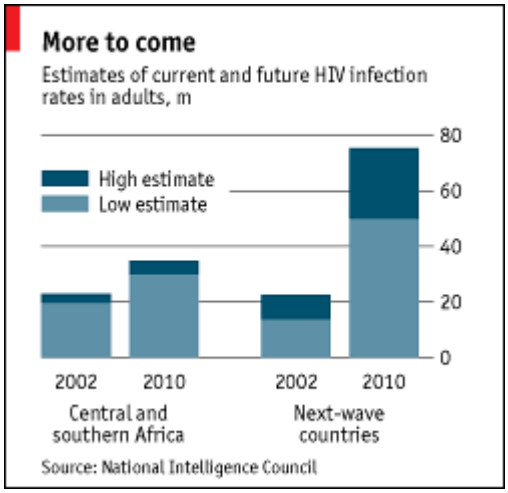
PREVENTION is said to be better than cure. It is, however, often hard to get people to act on this sensible advice. On October 11th, the board of the Global Fund to Fight AIDS, Tuberculosis and Malaria, an organisation set up in January to collect and disburse funds to combat these three diseases, met to consider the fund's financial position. The numbers are grim. The fund has pledges of $2.1 billion over the next five years. But next year alone, it will need $2 billion more than it has been promised in order to finance those proposals it has already agreed to.

Though malaria and tuberculosis are serious problems, it is against AIDS that the bulk of the effort is directed. All of the approved proposals, even those aimed at treatment, have been chosen because they involve an element of prevention. Condoms and clean needles will be distributed. Antiviral drugs will be given to pregnant women. Counselling and testing centres will be built. If the money is there. On current projections, though, the fund will run out of cash in the second quarter of 2003. And even if it survives that, the projected shortfall in 2004 is $4.6 billion.

Nor is the drain on its funds likely to diminish. The numbers infected with HIV, the virus that causes AIDS, are rising rapidly. The day before the Global Fund meeting, UNAIDS, the United Nations agency charged with tackling the epidemic, revised its estimate of the amount of money that is needed for the task in 2005, taking poor and middle-income countries together, from $9.2 billion to $10.5 billion.

Furthermore, a report on the likely future spread of AIDS was published on September 30th by America's National Intelligence Council (NIC). It focused on China, India, Russia, Nigeria and Ethiopia, all populous countries, but none of them now in the premier league of infection rates. It concluded that within eight years these five “next-wave” countries will have 50m-75m cases among them, compared with 30m-35m in central and southern Africa, the part of the world that is now worst hit (see chart). Moreover, it reinforced a point it made in a less-detailed report published three years ago: that AIDS is not only a humanitarian crisis in places that suffer from it, but also a security crisis for

America and, by extension, other rich countries too. That point, above all others, might be the one that helps to loosen purse-strings in the world's finance ministries.



Cough up

The funding crisis is real enough. But international agencies are always short of money, rarely reticent about reminding people of the fact, and generally willing to wring any withers that can be wrung in pursuit of an extra dollar. The National Intelligence Council, however, is about as hard-headed an organisation as can be imagined. Yet it, too, is clearly scared. And its report makes disturbing reading.

One striking observation is how different the pattern of transmission is in different countries. That makes off-the-peg solutions impossible. Usually, an AIDS epidemic starts in a vulnerable group, and then spreads to the wider population. The NIC report suggests that in the next-wave countries those vulnerable groups differ significantly from place to place.

In China, for example, one of the main causes of the spread is poor farmers selling blood to illegal brokers. Although only a fraction of this blood is infected, brokers tend to mix what they have bought into large batches before extracting plasma for transfusions from it. One infected donation is all it takes to contaminate an entire batch. In Russia, by contrast, injecting heroin with dirty needles is the main source of infection. That is a common route to an AIDS epidemic. But the authorities are compounding their problem with what looks like a compassionate policy. Prison amnesties are releasing large numbers who have been infected while in jail.

In Ethiopia, meanwhile, the driving force is war—or rather, paradoxically, peace. The demobilisation that followed the end of the war with Eritrea has dispersed infected soldiers and camp-following prostitutes all over the country. Ethiopia has already had one wave of demobilisation-led AIDS after the end of its civil war in the 1980s. Now it faces another.

Although the NIC report predicts that China (10m-15m infected people in 2010) and India (20m-25m) will be the countries with the most cases, they are so populous that the epidemic should not destabilise them in the short term. But they will certainly feel the pinch. In India, for example, AIDS is expected to cut GDP by 1% a year.

About Russia, Nigeria and Ethiopia the report is less sanguine. Nigeria, the most populous country in Africa, is likely to lose a large part of its government and business elite—for although AIDS hits poor countries worst, it rarely spares the rich within those countries, since rich people generally have more sexual opportunities than poor ones. And while the NIC reckons Nigeria's oil industry will escape the worst effects of AIDS, the prospect of the country, which has a large and increasingly assertive Muslim population, being even less governable than it is now is one that must worry America's State Department. Ethiopia will suffer similar problems, though it has no oil.

Russia, too, could be destabilised. The disease will exacerbate the decline of the country's population, reduce its ability to put a decent-sized army into the field and, given that it has not yet abandoned pretensions to have a comprehensive health service, drain its tax revenues.

None of these countries yet shares the plight of southern Africa, of course. There, infection rates in several countries are a quarter or more of the adult population. But that, too, highlights a dilemma. As the report's authors delicately put it, “a debate is likely over how much the Global Fund should focus on heading off AIDS in large, next-wave countries where it is in the earlier stages, and how much to devote to the hardest-hit countries in southern Africa.”

This debate will be irrelevant, though, if the fund runs out of money, and other mechanisms are not put in place to compensate. The Global AIDS Alliance, one of the field's numerous lobby groups, has done a few sums. Accepting UN estimates of need, and based on the idea that 90% of the money should come from national governments (with the other 10% coming from foundations), it has come up with a formula that shares the burden in proportion to the GDPs of potential donors. According to this, America should raise its annual contribution from $200m to $1.5 billion. Whether it does so may depend on whether it believes its own spooks.

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African great apes

Out in the forest, something stirs

Oct 17th 2002 | BILI
From The Economist print edition

A species of ape unrecognised by science may exist in the Congo

I'll give you “new to science”

A HUNDRED years ago, on October 17th 1902, Oscar von Beringe, a German explorer, “suddenly noticed a troupe of large black monkeys”, while climbing a volcano in eastern Congo. “We were able to shoot two of these monkeys”, he wrote, “which hurtled down the gorge of the crater with an incredible rumble.” That von Beringe then found himself “unable to classify the monkey” is not surprising. He was the first European to come into contact with a mountain gorilla.

Gorillas, mountain and otherwise, are rare now. Poachers kill the adults for their meat, and sometimes to make knick-knacks for foreigners. Youngsters are taken from the wild to adorn private zoos. But even after a century, that diminished population may yet hold a surprise.

In 1908 two apes were shot near a place called Bondo, in northern Congo. Their skulls (and two others found in local dwellings) had the crests characteristic of gorillas, but they were unusual enough for taxonomists of the time to classify them as a separate subspecies. Since then, no further specimens of this subspecies have been recorded. Four years ago, Karl Amman, a Swiss wildlife photographer, took up the quest to rediscover the missing gorillas. What he has found is not yet clear. But it might, just, be a new species of ape.

Mr Amman's expeditions into the forest of Bili, near Bondo (the latest of which, accompanied by this correspondent, has just returned from the bush) have not seen a live ape. But they have found a lot of ground nests. Such nests are characteristic of gorillas. Chimpanzees, the other species of ape that lives in this area, prefer to sleep in trees. Other spoor point to the presence of gorillas, too. Faeces in the area resemble those of gorillas, as does the way that saplings are broken down around nest sites. As if to clinch it, Mr Amman has also found another crested skull lying around.

Some of the nests, however, have hairs in them. And hairs contain DNA. That yielded a surprise. The DNA looks like that of a chimpanzee, not a gorilla. Moreover, a re-interpretation of the skull Mr Amman found has pronounced it to be that of a chimp, albeit a crested one. And analysis of the faeces suggests that whatever dropped them was eating a fruit-rich diet. That is also characteristic of chimps. What Mr Amman seems to have found is a chimpanzee that behaves like a gorilla.

Local hunters' reports point to something unusual, too. Bondo's hunters do not distinguish between gorillas and chimpanzees. Instead, they divide the local apes into “tree-beaters” and “lion-killers”. These two types look the same, and both flee hunters. But lion-killers, say the hunters of Bili, are much bigger—and are difficult to kill, even with a poisoned arrow. Several enormous chimp footprints seem to confirm the hunters' reports of an out-sized chimp. And, in a photograph recently obtained from a hunter, the body of one chimp appears to be about 1½ metres tall (five feet or so). Indeed, to nest confidently on the ground in forest thick with lions and leopards, the lion-killers would probably have to be of such a size.

Whether such lion-killers really are a distinct population, corresponding to Mr Amman's ground-nesting “chimpanzees”, and whether they are so different from other great apes that they constitute a separate species, remains to be seen. But it is surprising that in the early years of the 21st century such a discovery could even be contemplated. Apparently, the jungle has not given up all its secrets yet.

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Infant mortality

Trouble with the in-laws

Oct 17th 2002
From The Economist print edition

The lethal implications of an interfering mother-in-law

MOTHERS-IN-LAW are the butt of many jokes. There may, though, be a sinister reality behind the humour. A report in this month's *Behavioural Ecology and Sociobiology*, by Jan Beise of the Max Planck Institute for Demographic Research in Rostock and Eckart Voland of Giessen University, both in Germany, suggests that, in the past at least, a mother-in-law may have had a fatal effect on her daughter-in-law's children.

Dr Beise and Dr Voland drew their data from church registers in the Krummhorn region of Germany. They studied the records of more than 23,000 families who lived there between 1720, when the records became comprehensive, and 1874, when the job of keeping them was taken away from the church. They found that the chance of a child dying within a month of birth doubled if the child's paternal grandmother was alive. The effect did not depend on whether the grandmother was living in the same household as the child.

Maternal grandmothers, by contrast, made no difference during the first month, and made a significant improvement to a child's prospects later on. The odds of a child who reached the age of six months going on to celebrate a first birthday were 60% higher if the child's maternal grandmother was still alive.

This second result makes perfect evolutionary sense. The first, though, does not. After all, a paternal grandmother has as much genetic interest in the success of her son's children as a maternal one does in her daughter's. But only, of course, if they really are her son's children. The maternal grandmother is the only grandparent who can be sure she is really related to her grandchildren. The paternal grandmother shares, in an evolutionary sense, her son's risk that he might have been cuckolded. So the best explanation that the two researchers can come up with is that women are in some way harassed by their mothers-in-law to discourage adulterous matings.

Such harassment might well have an adverse effect on a woman's fetus if she happened to be pregnant, and that effect would probably show up early in a child's life. And, witness the jokes, harassment is widely perceived to take place. But there is not much evolutionary point in “guarding” a pregnant woman against such matings, since she cannot become pregnant again. So the mother-in-law effect remains a bit of a mystery.

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Music-recognition software

Om tiddly om pom

Oct 17th 2002
From The Economist print edition

Computers can now recognise even mangled music

Get article background

ASSISTANTS in record shops are used to receiving “humming queries”: a customer comes into the store humming a song he wants, but cannot remember either the title or the artist. Knowledgeable staff are often able to name that tune and make a sale. Hummers, though, can be both off-key and off-track. Frequently, therefore, the cash register stays closed and the customer goes away disappointed. A new piece of software may change this. If Online Music Recognition and Searching (OMRAS) is successful, it will be possible to hum a half-remembered tune into a computer and get a match.

OMRAS, which has just been unveiled at the International Symposium on Music Information Retrieval, in Paris, is the brainchild of a group of researchers from the Universities of London, Indiana and Massachusetts. Music-recognition programs exist already, of course. Mobile-phone users, for instance, can dial into a system called Shazam, hold their phones to a source of music, and then wait for the title and artist to be texted back to them.

Shazam and its cousins work by matching sounds directly to recordings, several million of them, stored in a central database. For Shazam to make a match, though, the music source must be not just similar to, but actually identical with, one of the filed recordings. OMRAS, by contrast, analyses the music. That means it can make a match between different interpretations of the same piece. According to Mark Sandler, the leader of the British side of the project, the program would certainly be able to match performances of the same work by an amateur and a professional pianist. It should also pass the humming-query test.

The musical analysis performed by OMRAS is unlike any that a musicologist would recognise. A tune is first digitised, so that it can be processed. It is then subject to such mathematical indignities as wavelet decomposition, multi-resolution Fourier analysis, polyphase filtering and discrete cosine transformation. The upshot is a mathematical model of the sound that contains the essence of the original, without such distractions as style and quality. That essence can then be compared with a library of known essences and a match made. Unlike Shazam, only one library reference per tune is needed.

So far, Dr Sandler and his colleagues have been restricted to modelling classical music. Their 3,000-strong database includes compositions by Bach, Beethoven and Mozart. Worries about copyright mean that they have not yet gained access to company archives of pop music, though if the companies realise that the consequence of more humming queries being answered is more sales, this may change. On top of that, OMRAS could help to prevent accidental copyright infringements, in which a composer lifts somebody else's work without realising his inspiration is second-hand. Or, more cynically, it will stop people claiming that any infringement was accidental. There is little point in doing that when a quick check on the Internet could have set your mind at rest that your *magnum opus* really was yours.

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New thrillers

The history channel

Oct 17th 2002
From The Economist print edition

Three guys walk into a bar, a terrorist, a poet and an admiral...

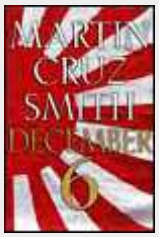
WHAT do Osama bin Laden, Dante Alighieri and Admiral Yamamoto have in common? Not much on the face of it. But they each appear as characters in three of this autumn's biggest thrillers, which weave their stories around real historical figures and events.

Harry Niles, the wisecracking antihero of Martin Cruz Smith's latest novel, grew up in Japan, the son of American missionaries. He's a cheerfully amoral wheeler-dealer who runs a gin-joint in downtown Tokyo; he can't even imagine living anywhere else. But it is wartime, and American-Japanese relations are at breaking point. ("December 6" is published in Britain as "Tokyo Station", which seems sensible. How many British readers are likely to remember that December 6th 1941 was the day before the Japanese attacked Pearl Harbour?) Harry feels as Japanese as he does American, which endears him to neither side. Meanwhile, he is juggling two difficult lady friends—Michiko, his live-in lover, and Alice, the world-weary wife of a British diplomat. And as if all that wasn't enough, his old nemesis—a bloodthirsty, bisexual samurai with a sharp sword to grind—has just hit town.

Crudely put, this is "Casablanca" with geishas, and it goes down like warm rice wine. Mr Cruz Smith pushes the right buttons as he follows Harry's progress from youthful misadventures to grown-up intrigues. There are pleasingly cartoonish scenes of high life and low life, including a tense late-night poker game, in which Harry is pitted against the wily Yamamoto. There's a generous helping of history and conspiracy theory, too, for those who like that sort of thing. Read it on a Hawaiian beach: after a couple of chapters, you'll stick your neck out for nobody until you've finished.

"Zanzibar" has a similar page-turning appeal and a similar theme, exploring, from several different points of view, the 1998 bombing of the American embassy in Dar es Salaam. In a leisurely fashion, Giles Foden splices together four separate narrative threads: a young al-Qaeda recruit is trained for *jihad*; a crusty old CIA

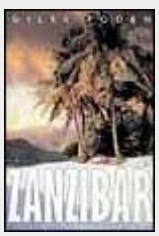
December 6
By Martin Cruz Smith



Simon & Schuster; 352 pages; $26.
Published in Britain as "Tokyo Station" by Macmillan; £16.99

Buy it at
Amazon.com
Amazon.co.uk

Zanzibar
By Giles Foden



Faber & Faber; 390 pages; £14.99

veteran ponders the terrorist network's next move; a Greek-American marine biologist quits Florida for Zanzibar; a foxy young State Department official takes up her first foreign post in Tanzania.

Mr Foden has written well about Africa in two previous novels, “The Last King of Scotland” and “Ladysmith”, so it comes as no surprise that much of the best writing here is lavished on the Zanzibar landscape. More surprising are his frequent lapses into lazy exposition and cliché; he fails completely, for instance, to come up with anything more than a bad pastiche of American-sounding dialogue. And after the long-awaited bang at the embassy, the story ends with a rather formulaic whimper. Still, “Zanzibar” is an engaging read, and Mr Foden's dramatisation of the day-to-day workings of terror is compelling—from furtive satellite-phone conversations right down to the al-Qaeda boss's green plastic flip-flops.

Buy it at
Amazon.co.uk

In the Hand of Dante
By Nick Tosches

Little, Brown; 376 pages; $24.95

Buy it at
Amazon.com

Best known as a biographer of Jerry Lee Lewis and Sonny Liston, Nick Tosches tries something completely different with “In the Hand of Dante”. The story concerns the discovery of the original manuscript of Dante's “Divine Comedy”; the action flickers between New York, where a plan to steal the manuscript is hatched, and Sicily, where the plan, and various unfortunate bystanders, are executed. Sandwiched in between are long sections in which the 14th-century poet himself discourses learnedly about Plotinus, numerology and other hot issues of his day.

Mr Tosches plays off three voices: that of a vicious gangster called Louie, who likes to wear women's underwear while humiliating prostitutes (“Who wouldn't rather fuck some kike bitch, no matter how fucking ugly she was, than a goddamn nigger broad?”); that of Dante (“It had troubled him greatly that he was unlearned in the languages of Scripture and of the great writers of ancient Hellas”); and that of a character also called Nick Tosches, a writer and thief, who sounds like a combination of Louie and Dante (“May God and the devil both kneel with open mouths before great Marlowe's young balls”).

To cut a long story short, Nick eventually pops Louie, makes off with the manuscript and makes out with the girl of his dreams. The whole thing reads like a poor man's “The Name of the Rose”. Perhaps the book's weirdest affectations are its musings on good and bad writing, and its rants against stupid editors and publishers. Reading a sentence like this one, you can only suppose these jeremiads are a sort of in-joke: “As stones that gleam in the sea like precious marvels, when garnered and laid to dry, turned to drab and unmemorable objects to be left behind or cast back into the sea, so were the words of this thing, written and so perceived in the tide of night and beheld anew, as nothing, in the morning light, when the ink of them was dry.” No man who can write a sentence like that and not laugh out loud has the right to complain about what an editor might do to his prose.

December 6.
By Martin Cruz Smith.
Simon & Schuster; 352 pages; $26.
Published in Britain as “Tokyo Station” by Macmillan; £16.99

Zanzibar.
By Giles Foden.
Faber & Faber; 390 pages; £14.99

In the Hand of Dante.
By Nick Tosches.
Little, Brown; 376 pages; $24.95

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About sponsorship

Winston Churchill

Wilfulness and will power

Oct 17th 2002
From The Economist print edition

THE water level of publications on Winston Churchill is rising fast. Nearly every new book emphasises the positive aspects of his long, remarkable career in British and world politics. As a public figure he was exceptional. A brilliant orator, he was also more than competent at administration. He always had a broad perspective on affairs. He promoted social reform, patriotism, imperialist conservation and liberal individualism; his commitment to each of these waxed and waned according to circumstances, but they were constant elements in his thought. Hating communism, he was willing to make compromises with the Soviet Union, once it became a global power, if this could somehow avoid a third world war. He felt himself a man of destiny. For both John Keegan and Klaus Larres, these were qualities which made him one of the greatest men of the 20th century.

Churchill had weaknesses. He was a supreme egotist. He treated the functions of whatever job he held as worthy of all the resources at the government's disposal. He chose his friends badly. His view of British history was irredeemably romantic (and ridiculously favourable to his family ancestors). He was hopelessly stubborn. When digging a pit for himself, he was often the last person to see the sense in throwing away the shovel. Yet his will power and oratory decisively stiffened the United Kingdom's determination to stay in the second world war.

John Keegan's brilliant little book tells the story of Churchill's life with precision. It is an authentic gem. The author's expertise in military history gives him a large advantage over previous biographers. Churchill's days at Sandhurst and then on active service as either journalist or soldier in Cuba, the north-west frontier, South Africa, Sudan and, in the first world war, France are described with acute awareness of strategic and logistical dimensions.

Despite being a natural fighter, Churchill never fitted well into the traditions of the armed forces. Always he tried to operate on his own terms. We learn also how he was prone to illness, but conquered his debility. He surmounted, too, the mental pain of his father's contempt and his mother's neglect. Churchill's life was a triumph over more adversity than he permitted others to know about.

Quirky, though, he certainly was, and his judgment was often rightly called into question. He was an oddball in the Conservative Party, then the Liberal Party and then the Conservative Party again, ratting on his loyalties twice. He fell into disrepute for ordering the disastrous Gallipoli operation in the first world war. He railed against Indian self-government. He was mocked for supporting the self-indulgent Edward VIII's wish to marry Wallis Simpson. Yet he had the right intuitions about Nazism. And when the call for him came in 1940, he proved himself superbly.

Mr Keegan's expertise in the geopolitics of the wartime alliance is one of the highlights of the book. Like most of the newer writers on Churchill, he defends him against the charge of having been a perpetual warmonger. This theme is at the core of the weighty work by Klaus Larres. Leaning back on archives and propped by endnotes, he convincingly shows that as prime minister again in 1951 Churchill strained every muscle to pull the Soviet Union into a dialogue. He was not modest, believing that he alone had the charisma and persuasiveness needed to bring the Americans and the Soviets together. When Stalin died in 1953, Churchill's optimism peaked—and secret overtures passed between Moscow and London. It did not come to much. Britain was no longer an equal member of the Big Three. But a big man, Churchill

Winston Churchill
By John Keegan

Penguin Lives/Viking Press; 208 pages; $19.95

Buy it at
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Churchill's Cold War: The Politics of Personal Diplomacy
By Klaus Larres

Yale University Press; 592 pages; $40 and £25

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certainly was, and these two very different books show us why.

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By Klaus Larres.
Yale University Press; 592 pages;$40 and £25

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About sponsorship

Russian culture

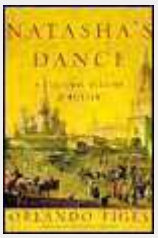
European body, Asian soul?

Oct 17th 2002
From The Economist print edition

AT ONE point in Tolstoy's "War and Peace", the blue-blooded Natasha Rostov visits an eccentric old relative who has gone off to live with a peasant woman. He strikes up a folk song on his guitar and Natasha begins to dance—not in the refined, French manner that she has been taught, but with the raw exuberance of the Russian countryside which, we are invited to suppose, she has mysteriously absorbed.

This famous and lovely scene gives Orlando Figes both the title and the opening question of his sweeping cultural survey of Russia over the past three centuries. Is it the case, he wonders, that a nation such as Russia, whose elites have consistently looked to foreign countries for their cultural examples, could nevertheless be held together by "the unseen threads of a native sensibility"? Mr Figes admits that the question itself is loaded—with ideas of national soul or character, for a start—and warns readers not to expect a direct reply. Yet every chapter sheds light from some angle on the issue of Russian identity.

Natasha's Dance: A Cultural History of Russia
By Orlando Figes



Metropolitan Books; 544 pages; $35.
Allen Lane/The Penguin Press; £25

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That identity is more evident at some times than others, Mr Figes suggests. War service, for example, transformed the attitudes of many aristocrat officers, who shared its travails, however unequally, with the peasantry. Internal exile is offered as a second example of when national threads pull different classes together. Mr Figes vividly describes the effect on Prince Volkonsky and his family of life in Siberia, where he was sent for taking part in the Decembrist plot. His children went native, and he himself, while not losing his French, became ever more bedraggled and rustic. A third force holding imperial Russia's elite and masses together, most visibly on Easter Sunday and other feast days, was orthodox Christianity.

Mr Figes writes as a historian—his brilliant panorama of the Russian revolution, "A People's Tragedy" (1997), won praise on all sides—and the Russia he describes here does not stand still. The foreign influences on the imperial ruling class were not uniform or unimpeded, he notes, prompting the thought that the raucous western materialism of Russia's present elites may yet be tempered by local forces.

At the same time, Mr Figes is keen not to exaggerate Russian differentness, as self-conscious patriots have too often done. He reminds us that composers such as Glinka or Musorgsky, who stressed their Russianness, were indebted to German and Italian models. The Slavophile movement, which romanticised Russia's native traditions—Tolstoy's Natasha again—borrowed massively from German romantic nationalism. Nor was the cultural traffic all west to east: some of the holy fools of the Russian church owed style and practises to the shamans of Siberia and the Mongol world.

The revolution of 1917 creates a divide so deep in this book, as in most histories of Russia, that you wonder if we are still dealing with the same country at all. Mr Figes draws fine portraits of writers such as Osip Mandelstam and Anna Akhmatova, who swam against the Soviet tide. He describes the dialectic of foreign absorption—Marxism, mass industry—and cultural reversion to earlier, darker periods of Russian history, notably that of Ivan the Terrible, whom Stalin so admired.

"Natasha's Dance", well written, nicely illustrated and with helpful maps, is clearly pitched at non-specialists keen to know more. That has not saved it from a savage, if ill-focused, attack in the *Times Literary Supplement* (September 27th) by a fellow Russianist, Rachel Polonsky, claiming to spot factual slips and careless paraphrase bordering on plagiarism. Mr Figes replied in a robust letter, and their row is the talk of literary London. When an academic turns generalist, some colleague or other is bound to turn

on him.

It is true that Mr Figes offers no grand theory of his own about nation, culture and identity. Much of what he writes will be familiar to those who know their Russian history or who have already made up their minds about the complexities of Russian identity. For the many who haven't, “Natasha's Dance” is consistently rich and thought-provoking.

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About sponsorship

American film

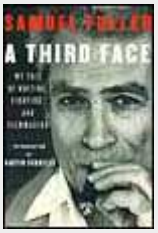
A genuine primitive

Oct 17th 2002
From The Economist print edition

SAMUEL FULLER, a director with an unusually independent cast of mind, had the good fortune to make his name at a time when Hollywood took risks on young turks with fire in their bellies, and the bad luck to watch his brand of guerrilla film making fall from favour long before his death, at 85, in 1997.

Fuller's westerns, war pics and crime films of the 1950s and 1960s are raw, brutal fables involving marginal characters and low-lifes in a fearsome world of violence, revenge, prejudice and greed. His juveniles are delinquent, his soldiers unheroic and his pickpockets brave. J. Edgar Hoover, for one, was outraged by Fuller's hard-eyed, bottom-up view of things, made the more shocking by quickfire story-telling, dislocated viewpoints and cut-to-the-bone editing. Not for nothing was he known in the industry as Slam-Bam Sam. Andrew Sarris, a generous and discerning critic, praised him as an American primitive.

A Third Face: My Tale of Writing, Fighting, and Filmmaking
By Samuel Fuller



Knopf; 574 pages; $35

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Amazon.co.uk

In his autobiography, edited posthumously, Fuller insists that he simply told it as he saw it. Born to working-class immigrant parents, Mr Fuller barged his way into a job as a copyboy on a New York newspaper at the tender age of 12. A cocky crime reporter at 17, he befriended the pickpockets and stool pigeons, the cold-blooded gangsters and unprincipled police officers who later peopled films such as “Pickup on South Street” (1953) and “Underworld, USA” (1961). Amid economic depression in the 1930s, he rode freight trains and filed copy from shantytowns.

In 1941, he enlisted in the infantry: “A helluva opportunity”, he says, “to cover the biggest crime story of the century.” His division—the First Infantry—landed in North Africa, in Sicily and then on Omaha Beach in Normandy, for which Fuller was cited for gallantry. Later, his unit liberated the concentration camp at Falkenau.

That unsentimental education gave Mr Fuller material for the 23 films he wrote and directed, as well as for dozens more scripts and 11 novels which he happily describes as pulp fiction. It also makes his biography, as he might put it, a gripping yarn. Mr Fuller's breathless tales of youthful guile, and his flashbulb snapshots of legendary New Yorkers, are as entertaining as a well-edited tabloid.

His war memories are often electrifying. Amid the carnage, Fuller watched a woman giving birth in a tank, celebrated Yom Kippur in Aachen Cathedral with soldiers of every faith and none, and shared a bottle of brandy with Marlene Dietrich. Fuller dramatised some of those wartime episodes in an autobiographical film, “The Big Red One” (1980), starring Lee Marvin. But distributors chopped the film in half before release, and this book is a more rounded and more telling account.

Fuller's movie years are no less arresting. Producer of many of his films, he turned his back on what he calls Hollywood crap and continued to bang out pugnacious scripts long after his luck turned. In his last years, he found himself newly fashionable with a younger generation. One admirer, Martin Scorsese, provides here an introduction. Fuller's films, he writes, are “blunt, pulpy, occasionally crude, lacking any sense of delicacy or subtlety”, but he finds them also passionate, brave, urgent and profoundly moral.

“A Third Face” has similar strengths and weaknesses. Fuller mentions just about everyone in post-war Hollywood, without casting new light on any of them. His style is pithy, not elegant; his wisdom homespun. Aspiring film makers will find his technical advice limited. “Seize your audience by the balls! Smack people in the face!” he barks. Despite all this, Fuller's artless passion, as much for life as for films, spills infectiously off every page.

A Third Face: My Tale of Writing, Fighting, and Filmmaking.
By Samuel Fuller.
Knopf; 574 pages; $35

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Baseball

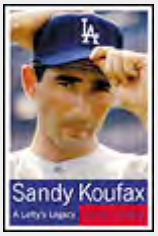
The left hand of God

Oct 17th 2002
From The Economist print edition

IN HIS prime, brief as it was, Sandy Koufax, was unhittable. As a left-handed pitcher for the Dodgers, he shot to stardom after a mediocre start, dominating baseball for five seasons in 1962-66. He finished his career with 165 wins against 87 losses, struck out roughly three times as many batters as he walked, and pitched four no-hit games, at the time, a record. One of those four, in September 1965, was that zero-point marvel of sporting statistics, a perfect game: 27 outs in a row with no hits, walks or errors. After retiring in 1966, at the peak of his abilities but plagued by arm injuries, he became the youngest player elected to the Hall of Fame.

Mr Koufax's significance went well beyond the pitching mound, Jane Leavy, a sports journalist, argues in this knowledgeable and sympathetic biography. Jewishness was still a social handicap, and Mr Koufax was a symbol, an obsession even, for many American Jews, famously refusing to pitch on Yom Kippur, the holiest day in the Jewish calendar (though he himself probably did not use the time off to go to synagogue).

Sandy Koufax: A Lefty's Legacy
By Jane Leavy



HarperCollins; 282 pages; $23.95

Buy it at
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Ms Leavy sees her subject, more generally, as a cultural bridge between the optimistic, prejudice-breaking America of the 1950s—the Dodgers, remember, had been the first team to defy baseball's colour bar—and the darker, more divisive 1960s.

Amid the scene-setting, the man himself ends up somewhat overshadowed, though this is not wholly Ms Leavy's fault. Mr Koufax's sense of privacy puzzled celebrity-hungry fans even in the 1960s. His shyness could fill a room, and he refused to be quoted directly for this book. Ms Leavy asks the right questions: why the sudden late 1950s breakthrough? Was he really brainy, or was that a Jewish stereotype? Did his pay hold-out with a fellow pitching star, Don Drysdale, change player-owner relations? Did a reckless club work his arm too hard? Good as it is, her book would have been better with more answers.

Sandy Koufax: A Lefty's Legacy.
By Jane Leavy.
HarperCollins; 282 pages; $23.95

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About sponsorship

Paris theatre

How it's done

Oct 17th 2002 | PARIS
From The Economist print edition

A chance to see what acting can be

AS ONE film star after another makes an inept first attempt at the art of the theatre on Broadway or in London's West End, it is a thrill to be able to escape to Paris to see two great stage veterans at work, both playing to packed houses.

Robert Hirsch plays the secretary of the stage legend, Sarah Bernhardt, in “Sarah” at the Théâtre Edouard VII. Michel Bouquet is in “Minetti” by Thomas Bernhard at the Théâtre de la Ville. Both plays celebrate actors' lives, though not perhaps as intended or quite as you might think: Fanny Ardant, who stars as the renowned comedienne, is brilliantly outshone by Mr Hirsch, and the word “celebrate” has to be used cautiously when talking about the wintry comic universe of Bernhard, Austria's foremost post-war playwright.

John Murrell's “Sarah” is an almost anorexically thin boulevard piece from the 1970s about the ageing Bernhardt, who is trying to finish an autobiography with the help of her faithful assistant, Pitou. As an aide-mémoire, she gets him to act out for her significant figures from her past, among them her mother and Oscar Wilde.

It is unlucky for Ms Ardant, who is already brave to play a dead genius, that she has to share the stage with a living one. She is currently also to be seen in Paris as Maria Callas in a film about the soprano's last years. Although on film her singing is enhanced by recordings of La Divina, on stage Ms Ardant is remarkable for her lack of voice or vocal technique, and we know from early recordings that Bernhardt's voice was one of her glories.

Mr Hirsch, known in the 1950s and 1960s for virtuoso performances in Feydeau farces at the Comédie-Française, and later as Nero in Racine's “Britannicus” opposite Marie Bell, and as Shakespeare's “Richard III”, is an actor of phenomenal physical mobility and comic timing, undimmed by age. His mime of Bernhardt's mother angrily flicking the train of her gown while pleading in a quivering mezzo soprano with her wilful daughter, is a theatrical marvel. His Oscar Wilde, haunted but gallant, is a transformation of tone and physical detail equally magical. Watching this vigorous, seemingly possessed actor at work, you feel that the name of this creaking vehicle ought really to be changed to “Robert”.

If Mr Hirsch's *jeu* is all about demonstration, entertainment and eye-catching bravura, Mr Bouquet's skill is so subtle as to be almost invisible. His character is named after a brilliant German-Italian actor, Bernhard Minetti, a favourite of the playwright's and sometime interpreter of his work, although “Minetti” is not strictly biographical. Just as in his novel, “The Loser”, where the main character, Glenn Gould, has elements of the great Canadian pianist but is actually more of a vehicle for Bernhard's own obsessions with isolation and aesthetic integrity, so the Minetti of the play, an elderly actor who has not worked on stage for 30 years, is an artist in the grip of creative fury against the horror and stupidity of the world.

In his first scene, an anxious Minetti hurries into the hall of a grand hotel to ask the porter if the director sending for him has come yet. Balding with grey hair, emaciated in a long coat, the actor is there before you notice him. It is as if Mr Bouquet, famous for roles in Molière, Strindberg, Beckett and Pinter, is so dedicated to truth of character that he would do anything for the audience not to break the concentration by applauding his entrance. All facets of his character—charm, irony, anguish and rage—are scrupulously pointed. His rhythm and intonation exploit the playwright's repetitions in masterly fashion. As he sits at the end alone and abandoned under falling snow, his final line, “Partir vite”, is the devastating completion of a great tragicomic performance.

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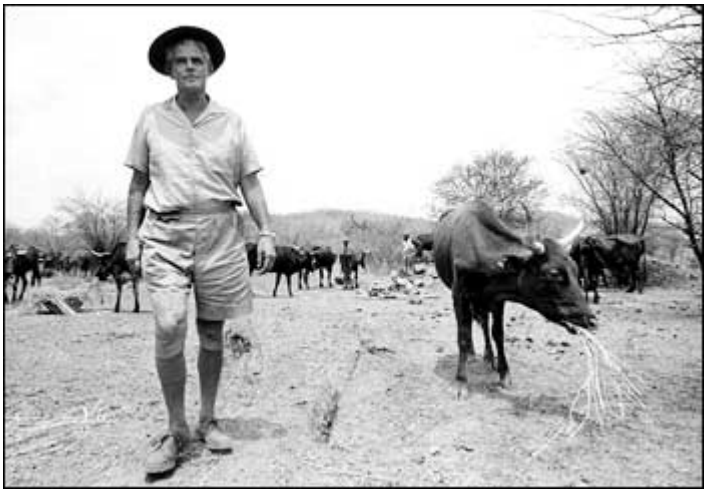
Sir Garfield Todd

Oct 17th 2002
From The Economist print edition



Sir Garfield Todd, a liberal in Africa, died on October 13th, aged 94

THE missionaries who introduced Christianity to Africa offered the heathen a sometimes confusing choice. Should you become an Anglican or a Roman Catholic? What about the Methodists or the Presbyterians? And don't forget the Dutch Reformed Church. Thoughtful Africans tended to pick a confession that offered something more than liturgy. Here Garfield Todd, newly arrived from New Zealand, had an advantage over some other missionaries. His church, the New Zealand Church of Christ, might not have the glamour of the Catholics, but he was a brilliant teacher.

His school for African children at Dadaya, in what was then British-ruled Southern Rhodesia and later became independent Zimbabwe, gained fame throughout the country for spotting and developing the talent of its pupils. A teachers' training college was later attached to the school. A number of the country's future black political leaders learnt spelling and sums as pupils of Sir Garfield, as he became late in life. Robert Mugabe, then aged 19, briefly taught at the Dadaya school.

Sir Garfield was also admired in Dadaya for his medical skills, although he had had no formal training. He and his wife Grace (also a teacher) set up a clinic, where he reckoned that he had delivered hundreds of babies, including his own daughters. He treated minor injuries with whatever remedy was at hand. Engine oil, he found, soothed burns. He showed Africans how to build brick walls that did not fall down: in New Zealand he had worked for a time in the family business of brickmaking. And he was a handy carpenter.

His time at Dadaya in the 1930s and 1940s was probably the happiest of his long life, admired by blacks for his skills, and approved of by whites for his slightly paternalistic ways. This was to change when he entered the colonial politics of Southern Rhodesia.

Two masters

Sir Garfield disregarded the wise advice, noted in Luke and Matthew, that no one can serve two masters. He sought to give the best of service to both. He believed that only by entering Parliament could he help the black majority to have some say in the affairs of the white-run country. The governing United Rhodesia Party was happy to recruit him. He might be a bit soft on the natives, but no one doubted his whiteness. Like many whites he farmed cattle and owned huge tracts of land: about 90,000 acres at one time.

He entered Parliament in 1946 and his energy, command of language and evangelist style gained him quick promotion. In 1953 he became prime minister. Most whites applauded his decision to crush a strike of African coalminers, but a modest proposal to increase the number of Africans educationally qualified to vote, from 2% to about 16%, met with hostility. An unfortunate earlier remark, that one-man, one-vote was the “key to chaos”, was used against him. In 1958 he lost the confidence of his party and resigned. He formed a new party which did not win a single seat. Even fellow liberals said that political progress should be made by evolution, not revolution. It seemed his fight was over. An African song had the words, “Todd has left us/Go well old man”.

The old man was hardly a revolutionary, but he did become more radical as he grew older, getting close to the future black leaders. Ian Smith, the leader of a regime that declared “independence” from Britain in 1965, made it clear in his book “Bitter Harvest” that he despised Sir Garfield for starting negotiations with black leaders as early as the 1950s. But the schoolteacher had seen how swiftly history was moving, with countries such as Nigeria and Ghana racing towards independence. Harold Macmillan, a British Conservative prime minister, had warned white South Africans of “winds of change” in 1959.

For long periods during the Smith regime Sir Garfield was confined to his home, barred even from receiving letters and phone calls. Zimbabwe gained independence under Mr Mugabe's leadership in 1980, after a long guerrilla campaign from bases in newly-independent Mozambique. Sir Garfield was rewarded for his support for black rule with a seat in the upper house of Parliament. But after a five-year term he was not reappointed. He had lost his enthusiasm for Mr Mugabe, who he said was mismanaging the country. He was appalled by the extent of corruption in the government.

The well-intentioned servant had fallen out with blacks as well as whites. For many whites he was a traitor to his tribe. As for the blacks, they were grateful for his support. As a missionary and a liberal he was respected. Yet he remained an outsider, “a good man in Africa”, but a foreigner, from the most distant of lands.

Sir Garfield tried to vote in this year's presidential election. With his daughter Judith he queued up at a polling station in Bulawayo and prepared for a long wait. But along with other elderly people he was ushered to the front and treated with warmth by all who recognised him. However, the former prime minister had been placed on a list of those deprived of the vote because they were eligible for dual nationality. The official who turned him away did so with embarrassment. Sir Garfield had once been his teacher.

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Overview

Oct 17th 2002
From The Economist print edition

Share prices surged sharply worldwide as investors were encouraged by good profit results from a few American firms. America's Dow Jones Industrial Average rose by 13% in four days, its strongest four-day performance for over a decade. As the gloomier results of other firms were announced, however, share prices fell back.

American producer prices fell by 1.9% in the year to September, after a fall of 1.6% in the year to August. Retail sales fell by 1.2% in value in September.

More bad news for the **euro area's** largest economy, **Germany**, where the ZEW expectations index fell in October by more than expected. In **France**, industrial production fell by 1.1% in the year to August compared with a fall of 1.4% in the year to July, and retail sales dropped by 1.5% in the year to September. **Italy's** industrial output in the year to August fell by 7.0%.

Consumer prices in the year to September rose by 1.6% in **Austria**, by 1.8% in **France**, by 3.4% in **the Netherlands** and by 3.5% in **Spain**. Producer prices rose by 0.3% in the year to September in **Germany**, but fell in **Denmark** by the same amount.

France's trade balance chalked up a smaller surplus in August than in July, but the 12-month surplus widened to $9.7 billion, from $9.4 billion. **Spain's** trade deficit narrowed in August, giving a 12-month total deficit of $36.4 billion.

Japanese industrial production rose by 1.4% in August, rather than the 1.6% originally estimated, deepening worries about the strength of the country's manufacturing recovery. Japanese retail sales fell by 1.3% in the year to August.

Canada's unemployment rate rose to 7.7% in September, up from 7.5% in August.

In **Britain**, consumer-price inflation increased from 1.4% in August to 1.7% in September, thanks in part to the soaring property market. The RPIX measure of inflation, which excludes mortgage-interest payments, also inched up from 1.9% in August to 2.1% in September, although it remains well below the Bank of England's 2.5% inflation target. Producer prices rose by 0.4% in the year to September. As measured by the claimant count, the number of unemployed fell for the third consecutive month in September.

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Output, demand and jobs

Oct 17th 2002
From The Economist print edition

% change on year ago

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr*	1 year	2002	2003	latest	latest	latest	year ago
Australia	+ 2.4	+ 3.8 Q2	+ 3.8	+ 3.5	+ 2.7 Q2	+ 6.3 Q2	6.2 Sep	6.7
Austria	na	+ 0.4 Q2	+ 0.7	+ 1.9	+ 2.2 Jul	– 0.2 Jun	4.2 Aug	3.6
Belgium	+ 0.8	+ 0.3 Q2	+ 0.6	+ 2.0	+ 2.8 Aug	+ 3.5 Jul	12.0 Sep†	11.7
Britain	+ 2.4	+ 1.3 Q2	+ 1.6	+ 2.7	– 3.5 Aug	+ 5.0 Aug	5.2 Aug‡	5.1
Canada	+ 4.3	+ 3.2 Q2	+ 3.3	+ 3.3	+ 1.3 Jun	+ 5.4 Jul	7.7 Sep	7.2
Denmark	+ 4.4	+ 2.0 Q2	+ 1.7	+ 2.1	– 3.2 Aug	+ 3.4 Aug	5.1 Aug	5.1
France	+ 1.6	+ 1.0 Q2	+ 1.1	+ 2.2	– 1.1 Aug	– 1.5 Sep	9.0 Aug††	8.7
Germany	+ 1.1	+ 0.1 Q2	+ 0.4	+ 1.6	– 1.4 Aug	– 2.2 Aug	9.8 Sep§	9.4
Italy	+ 0.9	+ 0.2 Q2	+ 0.5	+ 1.9	– 7.0 Aug	nil Jul	9.0 Jul	9.5
Japan	+ 2.6	– 0.7 Q2	– 0.7	+ 1.0	+ 1.9 Aug	– 1.3 Aug	5.4 Aug	5.0
Netherlands	+ 0.5	nil Q2	+ 0.6	+ 1.8	– 2.0 Aug	+ 2.0 Aug	2.3 Aug**	2.0
Spain	+ 1.8	+ 2.0 Q2	+ 1.9	+ 2.6	– 3.9 Aug	na	11.3 Aug	10.6
Sweden	+ 2.4	+ 2.1 Q2	+ 1.8	+ 2.6	– 1.3 Jun	+ 4.7 Jul	4.1 Aug†	4.3
Switzerland	+ 0.4	– 0.4 Q2	+ 0.3	+ 1.6	– 2.0 Q2	– 0.6 Aug	2.8 Sep†	1.7
United States	+ 1.3	+ 2.2 Q2	+ 2.4	+ 2.8	+ 0.4 Aug	+ 6.1 Aug	5.6 Sep	5.0
Euro area	+ 1.6	+ 0.7 Q2	+ 0.8	+ 2.0	– 0.5 Jul	+ 1.4 Jul	8.3 Aug	8.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 8.8	+ 2.5 Q2	na	na	+ 1.4 Aug	+ 3.8 Jun	8.1 Aug†	7.8
Greece	na	+ 4.0 Q2	na	na	+ 1.5 Aug	na	na	na
Iceland	na	+ 3.12001	na	na	+ 3.3 2001	na	2.2 Aug†	1.1
Ireland	na	+ 2.9 Q1	na	na	+ 9.4 Aug	+ 1.4 Jul	4.3 Sep	3.8
Luxembourg	na	+ 3.52001	na	na	+ 0.6 Jul	– 6.3 May	2.8 Aug†	2.4
New Zealand	+ 7.1	+ 4.0 Q2	na	na	+ 4.3 Q2	+ 8.3 Q2	5.1 Q2	5.3
Norway	+ 3.1	+ 1.7 Q2	na	na	+ 1.5 Aug	+ 1.7 Aug	3.8 Q2	3.6
Portugal	+ 1.4	+ 1.4 Q1	na	na	– 2.0 Jul	+ 1.9 Aug	4.5 Q2†	3.9

*% change at an annual rate. †Not seasonally adjusted. ‡June-Aug; claimant count rate 3.1% in Aug. §EU harmonised rate 8.3% in Sep. **Jun-Aug. ††Revised series.

Text refers only to the first 16 countries listed

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Prices and wages

Oct 17th 2002
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2002	2003	latest		year ago	latest		year ago
Australia	+ 2.8	Q2	+ 6.0	+ 2.8	+ 2.5	– 1.1	Q2	+ 5.6	+ 3.7	Q2	+ 4.4
Austria	+ 1.6	Sep	+ 2.6	+ 1.7	+ 1.7	– 0.1	Sep	+ 0.1	+ 2.3	Aug	+ 2.9
Belgium	+ 1.3	Sep	+ 2.3	+ 1.6	+ 1.5	+ 0.8	Aug	– 1.0	+ 2.1	Q3	+ 3.7
Britain	+ 1.7	Sep	+ 1.7	+ 1.9	+ 2.4	+ 0.4	Sep	– 0.2	+ 3.8	Jul	+ 4.6
Canada	+ 2.6	Aug	+ 2.8	+ 2.0	+ 2.5	+ 0.4	Aug	+ 0.8	+ 3.0	Jul	+ 1.6
Denmark	+ 2.4	Sep	+ 2.3	+ 2.3	+ 2.0	– 0.3	Sep	+ 0.7	+ 3.7	Q2	+ 4.7
France	+ 1.8	Sep	+ 1.5	+ 1.8	+ 1.4	– 0.2	Aug	+ 0.9	+ 3.8	Q2	+ 4.2
Germany	+ 1.0	Sep	+ 2.1	+ 1.4	+ 1.1	+ 0.3	Sep	– 0.2	+ 2.1	Jul	+ 1.7
Italy	+ 2.6	Sep	+ 2.6	+ 2.4	+ 1.9	+ 0.2	Aug	+ 1.2	+ 2.5	Aug	+ 2.5
Japan	– 0.9	Aug	– 0.7	– 0.9	– 0.6	– 0.4	Sep	– 0.3	– 3.4	Aug	– 1.3
Netherlands	+ 3.4	Sep	+ 4.7	+ 3.7	+ 2.4	+ 0.2	Aug	+ 1.8	+ 3.1	Aug	+ 5.0
Spain	+ 3.5	Sep	+ 3.4	+ 3.3	+ 2.6	+ 0.8	Aug	+ 1.6	+ 4.0	Q2	+ 2.9
Sweden	+ 1.9	Sep	+ 3.2	+ 2.3	+ 2.0	– 0.3	Aug	+ 1.5	+ 2.3	Jul	+ 2.6
Switzerland	+ 0.5	Sep	+ 0.7	+ 0.7	+ 1.0	– 1.4	Aug	– 0.2	+ 2.5	2001	+ 1.3
United States	+ 1.8	Aug	+ 2.7	+ 1.6	+ 2.2	– 1.9	Sep	+ 1.6	+ 3.0	Sep	+ 4.1
Euro area	+ 2.1	Sep	+ 2.2	+ 2.2	+ 1.6	– 0.2	Aug	+ 1.7	+ 3.3	Q2	+ 3.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.0	Sep	+ 2.4	na	na	– 1.8	Aug	– 0.1	+ 3.8	Q2	+ 4.9
Greece	+ 3.5	Sep	+ 3.6	na	na	+ 2.1	Aug	+ 2.1	na		na
Iceland	+ 2.9	Oct	+ 8.0	na	na	+ 6.1	Sep	+ 6.8	+ 6.0	Aug	+ 8.8
Ireland	+ 4.5	Sep	+ 4.6	na	na	– 0.8	Aug	+ 1.0	+ 4.3	Q2	+ 8.5
Luxembourg	+ 1.8	Aug	+ 2.8	na	na	– 1.0	Jul	+ 0.6	– 1.7	Jul	+ 5.7
New Zealand	+ 2.6	Q3	+ 2.4	na	na	+ 1.5	Q2	+ 8.1	+ 2.1	Q2	+ 1.8
Norway	+ 1.4	Sep	+ 2.4	na	na	– 5.0	Sep	+11.0	+ 4.9	Q2	+ 4.4
Portugal	+ 3.7	Aug	+ 4.0	na	na	– 1.8	Aug	– 0.2	– 0.2	Jun	– 0.6

Text refers only to the first 16 countries listed

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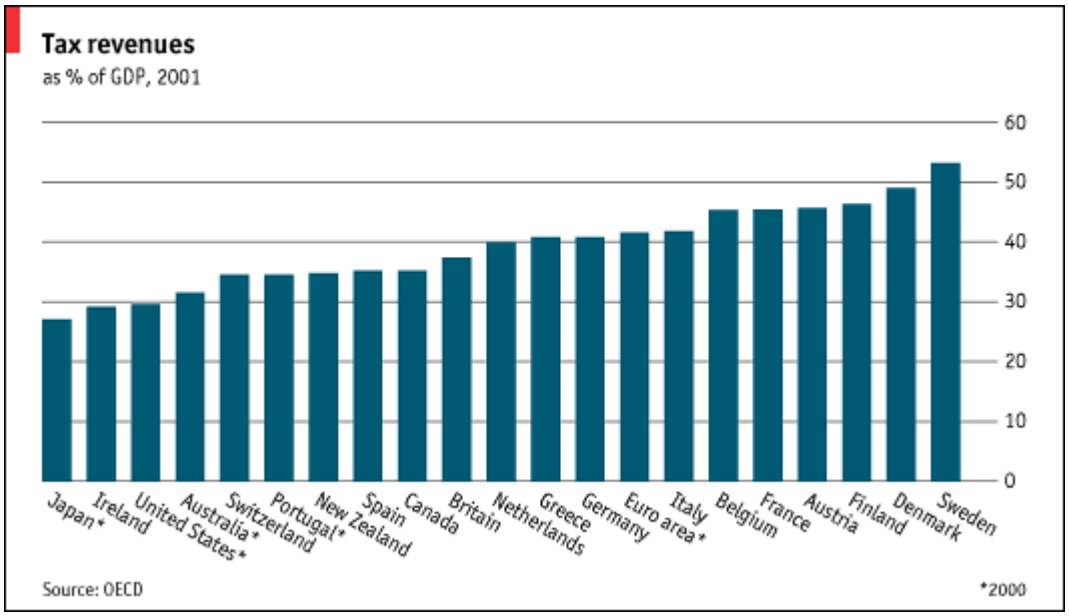
Tax revenues

Oct 17th 2002
From The Economist print edition

Provisional figures suggest that the ratio of tax revenues to GDP fell slightly in OECD countries in 2001, after five years of increase. Slower economic growth, which has held down revenues from taxes on profits and personal income, was the cause. Different countries have different stories, though: higher oil-tax revenues pushed Norway's ratio up by 4.6 percentage points. Nordic countries remain the biggest taxers.



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Money and interest rates

Oct 17th 2002
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Oct 16th 2002)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	– 4.2	+ 8.8	Aug	4.91	4.38	5.04	5.80	5.41	7.00
Britain	+ 8.5	+ 5.6	Aug	3.91	4.38	3.84	4.68	4.76	5.97
Canada	+16.2	+ 7.3	Aug	2.83	2.92	3.52	5.21	5.25	6.99
Denmark	+ 6.3	+ 7.0	Aug	3.55	3.90	3.70	4.77	4.83	6.86
Japan	+29.7	+ 3.3	Sep	0.02	0.01	0.00	1.06	1.38	1.14
Sweden	+ 2.2	+ 4.2	Jun	4.04	3.70	4.22	5.11	5.17	4.93
Switzerland	+12.3	+ 6.8	Sep	0.81	2.23	1.02	2.71	3.03	4.18
United States	– 0.6	+ 6.5	Sep	1.70	2.35	2.01	4.03	4.76	6.41
Euro area†	+ 7.8	+ 7.0	Aug	3.30	3.65	3.29	4.56	4.60	5.65

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.97%, Japan No.242 1.06%. Central bank rates: US fed funds 1.75%, ECB refinancing 3.25%, BOJ overnight call 0.001%, BOE repo 4.00%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS Warburg, DRI-WEFA, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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Stockmarkets

Oct 17th 2002
From The Economist print edition

Market indices

	Oct 16th	2002 high	2002 low	% change on one week	% change on record high	% change on Dec 31st 2001 in local currency	% change on Dec 31st 2001 in $ terms
Australia (All Ordinaries)	2,948.8	3,440.0	2,855.5	+ 2.8	-14.3	-12.2	- 5.9
Austria (ATX)	1,030.6	1,357.2	1,003.7	+ 2.7	-40.7	- 9.6	- 0.3
Belgium (Bel 20)	2,015.8	2,899.8	1,773.7	+13.7	-45.3	-27.5	-20.1
Britain (FTSE 100)	4,057.7	5,323.8	3,671.1	+ 8.4	-41.4	-22.2	-17.0
Canada (Toronto Composite)	6,157.0	7,958.1	5,695.3	+ 8.1	-45.9	-19.9	-19.3
Denmark (KBX)	168.9	233.4	156.4	+ 7.9	-44.0	-24.9	-17.1
France (SBF 250)	2,040.6	3,081.9	1,794.5	+13.7	-53.5	-31.6	-24.5
(CAC 40)	3,067.7	4,688.0	2,656.5	+15.5	-55.7	-33.7	-26.8
Germany (Xetra DAX)	3,008.9	5,462.6	2,597.9	+15.8	-62.7	-41.7	-35.7
Italy (BCI)	1,066.9	1,513.0	974.4	+ 9.5	-51.1	-25.6	-17.9
Japan (Nikkei 225)	8,884.9	11,979.9	8,439.6	+ 4.0	-77.2	-15.7	-11.2
(Topix)	881.5	1,139.4	835.6	+ 4.4	-69.4	-14.6	-10.0
Netherlands (AEX)	331.9	531.2	291.4	+13.9	-52.7	-34.5	-27.8
Spain (Madrid SE)	617.1	848.1	568.5	+ 8.5	-46.2	-25.2	-17.4
Sweden (Affarsvarlden Gen)	138.8	236.8	122.7	+13.1	-65.3	-40.0	-31.9
Switzerland (Swiss Market)	4,925.1	6,694.1	4,435.0	+11.1	-41.5	-23.3	-14.7
United States (DJIA)	8,036.0	10,635.3	7,286.8	+10.3	-31.5	-19.8	-19.8
(S&P 500)	860.1	1,172.5	776.8	+10.7	-43.7	-25.1	-25.1
(NASDAQ Comp)	1,232.4	2,059.4	1,114.1	+10.6	-75.6	-36.8	-36.8
Europe (FTSE Eurotop 300)*	884.8	1,279.7	797.2	+11.0	-48.1	-29.8	-22.6
Euro area (FTSE Ebloc 100)*	725.5	1,125.1	639.4	+13.5	-53.2	-34.8	-28.0
World (MSCI)†	772.0	1,024.4	703.7	+ 9.7	-46.7	na	-23.1
World bond market (Salomon)‡	491.9	504.2	430.3	- 1.4	- 2.4	na	+11.9

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Salomon Smith Barney World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Oct 17th 2002
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths	Current account The Economist poll % of GDP, forecast 2002	Current account The Economist poll % of GDP, forecast 2003	Exchange rate trade-weighted† Oct 16th	Exchange rate trade-weighted† year ago	Currency units per $ Oct 16th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2002‡
Australia	– 1.7 Aug	– 11.6 Q2	– 3.7	– 3.8	74.0	71.3	1.82	1.95	2.83	1.79	1.47	0.1
Austria	– 1.1 Jul	– 1.0 Aug	– 1.6	– 1.7	na	100.3	1.02	1.10	1.58	–	0.82	-0.3
Belgium	+ 14.7 Jul	+ 12.5 Jun§	+ 5.0	+ 5.1	na	99.2	1.02	1.10	1.58	–	0.82	nil
Britain	– 44.2 Aug	– 25.8 Q2	– 2.1	– 2.0	106.4	105.2	0.64	0.69	–	0.63	0.52	-0.8
Canada	+ 34.3 Jul	+ 12.1 Q2	+ 2.0	+ 2.2	75.2	76.8	1.58	1.56	2.46	1.56	1.27	1.0
Denmark	+ 7.3 Aug	+ 3.5 Aug	+ 2.2	+ 2.0	103.0	102.8	7.57	8.18	11.8	7.43	6.09	2.2
France	+ 9.7 Aug	+ 27.3 Jul	+ 1.7	+ 1.6	na	101.9	1.02	1.10	1.58	–	0.82	-2.0
Germany	+106.6 Aug	+ 31.9 Aug	+ 1.4	+ 1.1	na	98.9	1.02	1.10	1.58	–	0.82	-2.8
Italy	+ 10.6 Jul	– 3.1 Jul	nil	– 0.1	na	72.7	1.02	1.10	1.58	–	0.82	-1.4
Japan	+ 86.5 Aug	+114.0 Aug	+ 2.8	+ 2.8	130.3	138.2	124	121	193	122	–	-8.0
Netherlands	+ 26.0 Aug	+ 2.7 Q2	+ 3.5	+ 3.6	na	98.2	1.02	1.10	1.58	–	0.82	0.1
Spain	– 36.4 Aug	– 14.5 Jul	– 1.9	– 1.6	na	74.4	1.02	1.10	1.58	–	0.82	-0.3
Sweden	+ 14.6 Aug	+ 7.9 Aug	+ 3.3	+ 3.4	78.1	73.8	9.24	10.4	14.4	9.08	7.43	2.1
Switzerland	+ 3.5 Aug	+ 22.7 Q2	+10.1	+10.3	114.3	111.7	1.49	1.63	2.32	1.47	1.20	na
United States	–438.5 Jul	–428.8 Q2	– 4.7	– 4.9	115.1	118.0	–	–	1.55	0.98	0.80	-1.0
Euro area	+ 83.3 Jul	+ 27.5 Jul	+ 0.5	+ 0.6	82.0	79.4	1.02	1.10	1.58	–	0.82	-1.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 13.0 Aug	+ 9.4 Aug	na	na	na	78.6	1.02	1.10	1.58	–	0.82	3.2
Greece	– 18.4 Jul	– 7.8 Jul	na	na	na	57.5	1.02	1.10	1.58	–	0.82	0.4
Iceland	+ 0.2 Aug	– 0.1 Q2	na	na	na	na	88.3	102.8	137	86.7	71.0	-0.5
Ireland	+ 34.0 Jul	+ 0.4 Q2	na	na	na	87.7	1.02	1.10	1.58	–	0.82	0.1
Luxembourg	– 2.9 Jul	+ 2.1 Q2	na	na	na	99.2	1.02	1.10	1.58	–	0.82	2.2
New Zealand	– 0.1 Aug	– 1.3 Q2	na	na	88.4	79.8	2.08	2.37	3.23	2.04	1.67	0.1
Norway	+ 24.5 Sep	+ 25.5 Jul	na	na	105.8	96.9	7.47	8.77	11.6	7.34	6.01	14.0
Portugal	– 12.8 Jul	– 9.4 Jul	na	na	na	89.5	1.02	1.10	1.58	–	0.82	-2.4

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD forecast. §New series.

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The Economist commodity price index

Oct 17th 2002
From The Economist print edition

1995=100

	Oct 8th	Oct 15th*	% change on one month	% change on one year
Dollar index				
All items	74.3	75.7	+ 0.2	+20.6
Food	79.4	80.8	– 0.8	+23.9
Industrials				
All	67.4	68.8	+ 1.9	+15.7
Nfa†	70.8	72.4	+ 4.2	+29.8
Metals	64.5	65.7	– 0.2	+ 5.1
Sterling index				
All items	75.3	76.8	– 1.1	+12.3
Euro index				
All items	99.8	101.3	– 1.2	+11.6
Yen index				
All items	98.2	100.5	+ 2.0	+24.1
Gold				
$ per oz	319.60	315.50	– 0.3	+11.7
West Texas Intermediate				
$ per barrel	29.46	29.77	+ 2.3	+33.5

* Provisional. † Non-food agriculturals.

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Business profitability

Oct 17th 2002
From The Economist print edition

In 2001, according to a new survey of profitability, European companies were more profitable than their competitors in America, which were hit harder by the economic downturn.

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Overview

Oct 17th 2002
From The Economist print edition

China's GDP grew by 8.1% in the year to the third quarter, thanks to strong export performance and high public spending. The country's trade surplus rose to $29.1 billion in the 12 months to September.

Brazil's central bank raised short-term interest rates by three percentage points on October 14th. Fears that higher interest rates would choke off hopes of recovery led to a 3.9% fall in Brazil's stockmarket.

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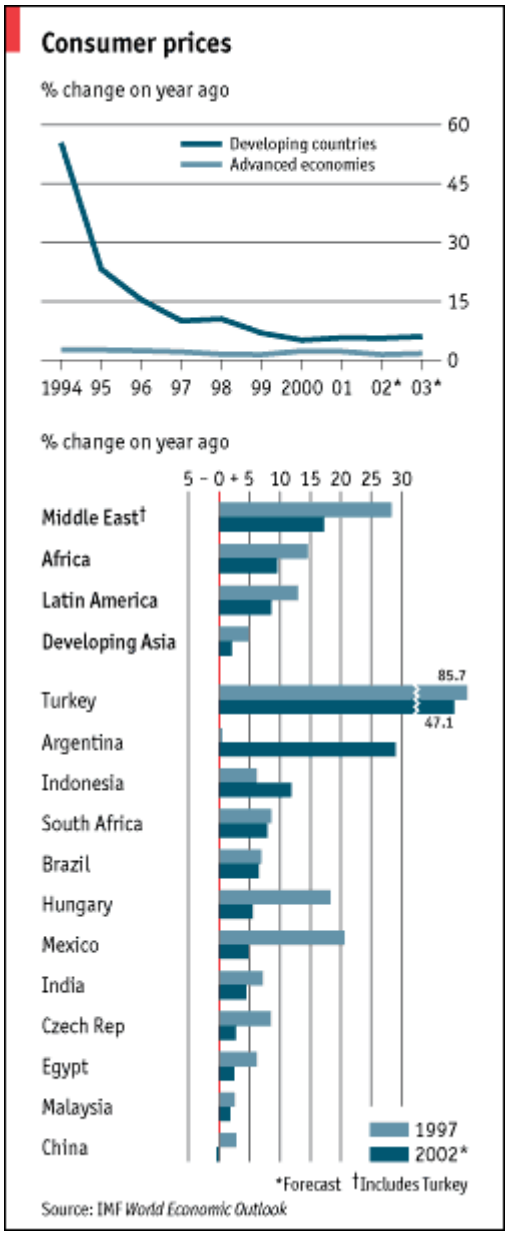
Consumer prices

Oct 17th 2002
From The Economist print edition

Emerging economies are following the global trend of disinflation. In most developing countries, consumer prices are rising more slowly than they were five years ago. According to the IMF's latest World Economic Outlook, average consumer prices in Africa, for example, are expected to rise by 9.6% in 2002, compared with a rise of 14.6% in 1997. Emerging economies in Asia have the lowest rates of inflation: the IMF expects consumer prices in Asia to rise by 2.1% in 2002, compared with 4.8% in 1997. Regional averages can, however, hide big differences between countries.



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Economy

Oct 17th 2002
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 8.1	Q3	+13.8	Sep	– 0.7	Aug	+29.1	Sep	+17.4	2001	258.6	Sep
Hong Kong	+ 0.5	Q2	–11.2	Q2	– 3.3	Aug	– 8.4	Aug	+15.7	Q2	111.2	Sep
India	+ 6.0	Q2	+ 5.7	Aug	+ 3.9	Aug	– 5.1	Aug	+ 2.0	Q2	59.5	Sep
Indonesia	+ 3.5	Q2	–13.8	Q1	+10.1	Sep	+26.6	Aug	+ 6.1	Q1	29.3	Aug
Malaysia	+ 3.8	Q2	+ 5.9	Aug	+ 2.1	Sep	+12.8	Aug	+ 6.9	Q2	33.0	Aug
Philippines	+ 4.5	Q2	+ 6.4	Jul	+ 2.9	Sep	+ 2.8	Jul	+ 6.3	Jun	13.2	Sep
Singapore	+ 3.7	Q3	+15.8	Aug	– 0.4	Aug	+ 6.9	Aug	+17.5	Q2	80.7	Sep
South Korea	+ 6.3	Q2	+ 8.5	Aug	+ 3.1	Sep	+ 9.9	Sep	+ 5.5	Aug	116.5	Aug
Taiwan	+ 3.0	Q2	+ 5.8	Aug	– 0.7	Sep	+18.2	Sep	+24.8	Q2	156.4	Aug
Thailand	+ 5.1	Q2	+11.4	Aug	+ 0.4	Sep	+ 3.4	Aug	+ 6.3	Aug	37.7	Aug
Argentina	–13.6	Q2	– 9.2	Aug	+38.5	Sep	+14.1	Aug	+ 3.9	Q2	9.2	Aug
Brazil	+ 1.0	Q2	+ 0.9	Aug	+ 7.9	Sep	+ 9.9	Sep	–15.2	Aug	37.6	Aug
Chile	+ 1.7	Q2	– 1.0	Aug	+ 2.3	Sep	+ 2.4	Aug	– 0.6	Q2	14.9	Aug
Colombia	+ 2.2	Q2	+ 2.7	Jul	+ 6.0	Sep	+ 0.5	Jul	– 1.4	Q1	10.6	Aug
Mexico	+ 2.1	Q2	+ 0.7	Aug	+ 5.0	Sep	– 9.0	Aug	–16.3	Q2	46.5	Aug
Peru	+ 3.8	Aug	+ 6.8	Jul	+ 0.7	Sep	+ 0.2	Jul	– 1.0	Q2	9.5	Aug
Venezuela	– 9.9	Q2	– 6.6	Jul	+28.2	Sep	+ 8.5	Q2	+ 1.9	Q2	8.2	Jul
Egypt	+ 4.9	2001†	+ 7.8	2001†	+ 2.7	Aug	– 7.9	Jun	nil	Q2	13.0	Jun
Israel	– 1.7	Q2	– 1.8	Jul	+ 6.4	Sep	– 6.2	Aug	– 2.3	Q1	24.6	Sep
South Africa	+ 2.2	Q2	+ 8.2	Aug	+12.5	Sep	+ 3.4	Aug	– 0.3	Q2	6.0	Aug
Turkey	+ 8.2	Q2	+ 7.2	Aug	+37.0	Sep	–10.9	Jul	+ 1.5	Jul	25.1	Aug
Czech Republic	+ 2.5	Q2	– 2.8	Aug	+ 0.8	Sep	– 2.3	Aug	– 2.3	Q2	22.3	Sep
Hungary	+ 3.1	Q2	– 0.9	Aug	+ 4.6	Sep	– 2.6	Aug	– 2.4	Aug	10.3	Aug
Poland	+ 0.8	Q2	– 1.1	Aug	+ 1.3	Sep	–10.3	Aug	– 6.4	Aug	28.2	Sep
Russia	+ 4.1	Q2	+ 5.5	Sep	+15.0	Sep	+42.6	Aug	+28.3	Q2	41.9	Sep
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.3	2001†	+ 2.8	May	+ 3.7	Aug	– 1.1	Sep	+ 2.7	2002†	4.8	Jun
Saudi Arabia	+ 1.2	2001	na		– 0.2	Apr	+44.1	2001	+14.5	2001	17.7	Aug

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Text refers only to the first 25 countries listed

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; Russian Economic Trends.

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Financial markets

Oct 17th 2002
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Oct 16th		Dec 31st 2001	
	Oct 16th	year ago	Oct 16th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	12.9	na	1,604.5	+0.1	− 6.3	− 6.3
Hong Kong	7.80	7.80	12.1	2.12	9,459.1	+5.4	− 17.0	− 17.0
India	48.4	48.0	75.1	5.76	2,995.0	+1.3	− 8.2	− 8.5
Indonesia	9,194	10,013	14,281	13.97	357.4	−8.8	− 8.8	+ 3.1
Malaysia	3.80	3.80	5.90	3.10	634.5	−1.1	− 8.9	− 8.9
Philippines	52.9	51.8	82.2	7.00	1,048.2	−3.1	− 10.3	− 12.5
Singapore	1.79	1.82	2.78	1.19	1,439.1	+4.5	− 11.4	− 8.6
South Korea	1,242	1,298	1,929	4.92	636.3	+2.6	− 8.3	− 3.0
Taiwan	34.9	34.5	54.2	2.10	4,223.3	+7.0	− 23.9	− 23.7
Thailand	43.8	44.7	68.0	1.94	332.8	−1.6	+ 9.5	+ 10.6
Argentina	3.61	1.00	5.61	21.30	438.0	+10.4	+ 48.3	− 58.9
Brazil	3.87	2.72	6.01	17.90	8,370.9	−3.9	− 38.3	− 63.2
Chile	747	704	1,160	2.76	4,586.6	−0.2	− 15.0	− 24.8
Colombia	2,858	2,300	4,440	7.91	1,292.9	−0.3	+ 20.7	− 3.8
Mexico	10.08	9.23	15.6	7.74	5,924.9	+2.8	− 7.0	− 15.4
Peru	3.63	3.45	5.64	4.67	1,182.0	+3.1	+ 0.6	− 4.6
Venezuela	1,412	743	2,193	29.83	7,511.4	−1.1	+ 14.3	− 38.7
Egypt	4.63	4.26	7.20	6.71	5,195.3	−1.4	− 1.5	− 2.7
Israel	4.82	4.31	7.48	6.40	325.3	−0.2	− 27.2	− 33.3
South Africa	10.4	9.30	16.2	13.70	9,566.9	+4.1	− 8.4	+ 5.6
Turkey	1,647,650	1,631,500	2,559,295	42.00	9,189.7	+0.5	− 33.3	− 41.1
Czech Republic	31.6	36.9	49.1	2.83	421.7	+3.6	+ 6.9	+ 20.2
Hungary	250	281	388	9.68	6,940.3	+3.7	− 2.7	+ 7.0
Poland	4.15	4.09	6.44	7.49	13,357.8	+4.8	− 4.1	− 8.6
Russia	31.7	29.6	49.2	21.00	352.6‡	+1.2	+ 40.9	+ 35.6
EMF (MSCI)*	1.00	1.00	1.55	na	267.6	+3.2	na	− 15.0
EMBI+†	1.00	1.00	1.55	na	203.5	+0.4	na	+ 1.6

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡ In $ terms.

Sources: National statistics offices, central banks and stock exchanges; Thomson Financial Datastream; Economist Intelligence Unit; Reuters; Warburg Dillon Read; J.P Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Garanti Bank; Deutsche Bank; *Russian Economic Trends.*

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